UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/C.10/1994/4
28 March 1994

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Twentieth session
Geneva, 2-11 May 1994
Item 4 of the provisional agenda*

ROLE OF TRANSNATIONAL CORPORATIONS IN SERVICES

Expansion of foreign direct investment and trade in services

Report by the UNCTAD secretariat

SUMMARY

As a result of a growing understanding among policy makers of the contribution of services to growth and development and the high costs that inefficiencies in the sector entail, many countries now perceive that sizeable economic benefits can be derived from fostering greater contestability of their services markets and that such process should involve also the opening of domestic markets to foreign competition. The present report examines experiences in this regard, drawing largely upon the experience of the joint UNCTAD/World Bank/UNDP technical cooperation project on the "Expansion of foreign direct investment and trade in services" (EFDITS), but also taking into account earlier work in this area, and suggests policy options for countries wishing to liberalize their services sectors in light of conflicting policy objectives that countries may face.

* E/C.10/1994/1.

94-15314 (E) 190494 22/04/94

/...

CONTENTS

		Paragraphs	Page
INTRODUCTION		1 - 5	3
I.	SERVICES GROWTH AND DEVELOPMENT	6 - 12	4
II.	EFFICIENCY AND THE CONTESTABILITY OF SERVICE MARKETS	13 - 18	6
	A. Regulation	14 - 16	6
	B. Contestability of markets and allocative and technical efficiency	17 - 18	8
III.	INTERNATIONAL TRANSACTIONS IN SERVICES: LOWERING BARRIERS AND IDENTIFYING A CONTEXT FOR LIBERALIZATION	19 - 36	8
	A. Instruments restricting international transactions in services	20 - 27	8
	B. Lowering barriers to international service transactions	28 - 30	10
	C. Unilateral or multilateral liberalization?	31 - 36	11
IV.	PRELIMINARY LESSONS FROM THE FIELD PROJECTS	37 - 76	13
	A. The cost of inefficiencies	38 - 48	14
	B. Service complexes	49 - 54	16
	C. Broader macroeconomic objectives	55 - 57	18
	D. Sequencing of policy reform	58 - 65	19
	E. The need for political consensus	66 - 73	21
	F. Complementary anti-trust and competition policy	74 - 76	23
V.	CONCLUSIONS	77 - 81	24
Annex.	The EFDITS project		27

INTRODUCTION

1. At its nineteenth session (E/1993/30, chap. IV, para. 7), the Commission on Transnational Corporations requested the Secretary-General to report to the Commission at its twentieth session on experiences in the liberalization of foreign direct investment in services, drawing upon the implementation of the joint UNCTAD/World Bank/UNDP technical cooperation project on the "Expansion of foreign direct investment and trade in services" (EFDITS). The present report has been prepared by the Programme on Transnational Corporations in response to that request.

2. Recent policy developments and pronouncements suggest that there is a growing recognition among a large number of developing countries that a healthy and expanding services sector is critical to the development of developing countries. This applies particularly to producer and infrastructural services that are critical for the efficiency and productivity of the various sectors of an economy. There is a similarly growing recognition that the rapid development of service industries demands financial, technological and human resources that are not always available to those industries in developing countries. Service industries may be starved for capital because national economic priorities tend to direct such resources towards other sectors (e.g., agriculture or manufacturing), or simply because of general shortages in a given country. Technology may be limited because monopolistic or oligopolistic situations that often prevail in service industries have tended to make firms in those industries complacent and unimaginative. Human resources may be insufficient because a country's most skilled professionals tend to go and work for other sectors where rewards are higher. Finally, there is also a growing recognition that the contribution of the services sector to economic development can be increased by improving the efficiency of existing capacities; it is on this aspect that most of this report focuses.

3. In line with these observations, understanding is increasing that improving the contestability of service markets offers a major avenue to break through many bottlenecks and that, in a number of industries, foreign service providers should be allowed to contest domestic service markets as part of this shift in policy - be it through investment or through trade. Foreign participation in services markets takes place principally through foreign direct investment (FDI), since, characteristically, services are not tradable at arm's length across borders. Many developed and developing countries have, therefore, initiated (typically unilateral) liberalization measures aimed at striking a new balance between more competition (including through FDI as well as trade) and continued protection of service industries through proper regulation, in the interest of increasing the efficiency of domestic service industries. In fact, a number of countries are doing what, a decade ago, would have been unthinkable: they are permitting transnational corporations into, for instance, their financial, air transportation, telecommunication and utilities industries. At the same time, there is a growing awareness that liberalization needs to be introduced and implemented with care, taking into account the different characteristics and role of different service industries and the prevailing situation of countries. 1/

4. In light of the above, the UNCTAD Programme on Transnational Corporations and the World Bank, with financial support from UNDP, launched a pilot technical assistance project focusing on the liberalization of FDI and international trade in services in developing countries. The project, entitled "Expansion of foreign direct investment and trade in services" (EFDITS) (see annex), has involved, thus far, the preparation of a volume, Liberalizing International Transactions in Services: A Handbook (ST/CTC/167), and the organization of field projects in Tunisia, Uganda and Uruguay. The Handbook provides the first comprehensive survey of instruments that are used by countries to regulate and restrict market access and national treatment of foreign service providers in their markets. It also provides guidance to policy makers as to issues that need to be considered in the process of liberalization. The field projects seek to take some of the recommendations of the Handbook to the implementation stage.

5. This report is an attempt to draw preliminary lessons from the EFDITS project, taking into account earlier work done in this area. 2/ The report is divided into four chapters, following this introduction. The next chapter (chap. I) summarizes the empirical findings and the arguments with respect to the increasing contribution of services to growth and economic development, drawing attention to the nature of contributions by different services in this regard. Chapter II presents some issues regarding the notion of efficiency in service industries, including the role of regulation and the place of domestic and international liberalization of markets. Chapter III reviews some of the key instruments used to regulate the contribution of foreign service providers to domestic markets; the chapter also reviews the advantages and disadvantages of liberalizing unilaterally or multilaterally. In chapters II and III, the emphasis is on the need to strike a balance between increasing the contestability of markets and finding a proper role for regulation. Chapter IV draws lessons from the field work. The emphasis of that chapter of the report is to identify steps countries may wish to consider if they want to increase the efficiency of their service industries by increasing the contestability of their markets through macro-institutional and sectoral reforms.

I. SERVICES GROWTH AND DEVELOPMENT

6. The growing contribution of services to the economy of both developed and developing countries is, by now, well documented. The share of services in gross domestic product (GDP) has increased in nearly all countries in recent decades, while the employment share of the sector has grown in an even more consistent fashion. Between 1965 and 1990, for example, the GDP share of services in all developing countries on average rose from 40 to 47 per cent. The equivalent figure for the developed countries was a growth in share from 54 to 61 per cent over the same period. 3/

7. In large part, the recent growth of services reflects the continuing transformation in how economies produce and in what they produce. 4/ In terms of how economies produce, manufacturers and farmers are becoming increasingly dependent upon an expanding number of intermediate service inputs, which are used in other rounds of production and which must either be produced by user-firms themselves or be purchased from specialized service suppliers. These inputs, producer services, include such services as transportation, finance,

insurance, research and development, market research, marketing and advertising. They are increasingly critical to the efficient functioning of other sectors and the overall competitiveness of the economy - either undermining it or supporting it.

8. The observation of a strong relationship between producer services and the competitiveness of other sectors is not a new one. Simon Kuznets noted that the productivity increases observed in the manufacturing and agricultural sectors of many industrial countries during the ascent were, in reality, improvements in those countries' transportation and distribution infrastructures. 5/ The counterpoint to this observation is that an economy may pay a heavy price for a weak producer service infrastructure. For example, inefficient wholesale and transportation infrastructures may result in a failure to distribute agricultural products from farming areas to markets, aggravating problems of food shortages; and investment booms may lose steam because of inadequate support services ranging from bad roads, insufficient water or electricity supply, or unreliable telephone services. Still, the truly new development about producer services, of course, is not so much the existence of the aforementioned relationship as much as it is the fact that the share of such inputs in the production process has been growing relative to other inputs and that the range and sophistication of those inputs is fast expanding.

9. On the whole, the point about the growing importance of producer services is both about growth and about development. Growing demand for producer services generates new jobs and new value added in those sectors. In turn, producer services may either strengthen or strangle the development of other services or other sectors of the economy, depending on their efficiency and availability.

10. The growth of services also reflects a transformation in what is being consumed. In part, this reflects the growth of income. As economies develop, more income can be diverted from simply paying for the basic necessities of life - food, clothing and shelter - towards other amenities, most of which are services: schooling, medical services and so on. But here, too, there are economy-wide linkages. The inefficient delivery of consumer services typically adds to the price consumers must pay and contributes to the inferior quality of what is being consumed. This translates into lost consumer welfare, reduced demand for other goods and services, and in turn, reduced GNP and employment opportunities associated with this unsatisfied demand.

11. The expanding contribution of services to the growth and development of developing countries is not limited to domestic transactions, but includes international transactions as well:

(a) Services may represent an important source of exports and foreign exchange. Indeed, a large number of developing countries already generates a substantial amount of foreign exchange through vibrant tourism industries, the remittances of expatriate workers (a form of service exports), or their export of transportation and shipping services, to name a few. Egypt, for example, points to its "four tigers" - three of which are services - as its principal sources of exports: temporary labour migration, tourism, petroleum and fees of

the Suez Canal, in decreasing order of importance. Some developing countries are even building up bases of high value-added service exports: for example, India, the Philippines, Tunisia and others in software; Mexico, Brazil, the Republic of Korea and others in construction and engineering; and Singapore in biotechnology;

(b) International transactions in services may be an important way to acquire and develop technology. Many countries develop their tourism market with the participation of foreign hotel chains, foreign airlines and other foreign service suppliers. In addition to providing fresh capital and additional capacity where it might be lacking, they bring with them service technologies that might be needed. To take an example from the field of construction and engineering, several Mexican firms were able to acquire technology from foreign contractors during the first phase of the development of Mexico's subway system. They were later able to apply such technology to the extension of the same subway network and, more recently, to the export of similar projects to other Latin American cities;

(c) By recognizing the existence of bottlenecks in the provision of producer services and opening domestic markets to foreign service providers, developing countries may be able to correct for costly inefficiencies and strengthen domestic development. In recent years, for example, many developing countries have found it necessary to open their telecommunications sectors to foreign providers in light of the huge investments required to upgrade their networks and the heavy cost to domestic producers of not having efficient networks.

12. In sum, a new understanding of the contribution of services to growth and development is emerging everywhere, and in developing countries in particular. This new understanding is based on a more sophisticated assessment of the linkages between services and other sectors, services and economic welfare and services and external transactions of a country.

II. EFFICIENCY AND THE CONTESTABILITY OF SERVICE MARKETS

13. In most countries, many service markets continue to be heavily regulated. Not unlikely, they are also characterized by a single producer or, at best, a few providers. This is so because many service markets are (or used to be) characterized by a situation of natural monopoly or imperfect information that does (or did) necessitate regulation. Unfortunately, this absence of competition is also often a major reason for the perpetuation of costly inefficiencies and bottlenecks that characterize many service industries. It is for these reasons that many countries have initiated the liberalization efforts in their services sectors mentioned above.

A. Regulation

14. Although there is a strong case on efficiency grounds for liberalization of policies with respect to market access of services providers - including foreign providers of services - several considerations, particularly those relating to

economic development, and the possibility of market failure can justify regulation and restrictions. However, while it is true that the nature of service markets often is such that some regulation is required for these reasons, the process of regulation can be fraught with pitfalls. Conditions of natural monopoly or imperfect information that attained at one time may no longer hold or may have changed. In telecommunications, for example, the dramatic reduction in the cost of technology has changed profoundly the level and nature of the barriers to entry that once existed, and hence the economics of that market, including in developing countries. Likewise, the increasing urbanization of populations in developing countries and the large concentrated markets that it creates, may make it more and more difficult for wholesalers and retailers to use the monopoly power they once held over more geographically scattered populations and lessen, if not altogether eliminate, the need for price regulation of many final commodities and services. And yet obsolete regulations may endure because regulators have been "captured" by the industries they oversee. Established producers are loath to see the regulatory framework of their industries change and to give away the monopoly rents they often collect as a result of restricted competition. The control they exert over the regulatory process may allow them to continue sheltering their market positions, however inefficient they may have become.

15. In short, policy makers must remain attuned to changes and carefully keep in mind that the principal target of regulation ought to be improving the welfare of all users and consumers of the regulated service, not that of individual producers. As a result, Governments that truly are interested in pursuing greater efficiency in services should often consider liberalizing competition and increasing the contestability of markets. Liberalization cannot be limited to opening up markets for other domestic producers but must involve foreign providers as well, however. This is so for a number of reasons, including the scarcity of local resources mentioned earlier and the fact that, increasingly, many services must directly or indirectly compete in world markets. For instance, Tanzanian tourism must compete with that of Kenya, Thailand or Indonesia; and exporters in Uganda are affected by transport prices as they compete with those of Zambia or Zimbabwe. The central policy issue for Governments thus becomes how best to combine regulation, wherever needed, with the discipline of competition through a reduction of barriers to entry, including entry of foreign providers through trade or investment.

16. In this respect, careful evaluation is necessary of arguments in favour of maintaining barriers to foreign competition, such as the infant-industry or industrial policy arguments, arguments for protection to preserve the balance of payments, or arguments on the basis of optimal tariffs and imperfect or strategic competition. There may be occasions in which development objectives can be considered more important than static efficiency objectives. For instance, in a dynamic context the long-term benefits of promoting indigenous capabilities in key industries may require careful consideration. Furthermore, the question of an equitable distribution of efficiency gains (so as to compensate the losers while leaving the gainers better off than before) warrants attention. Thus, the implications of liberalization in terms of the development process should be seriously evaluated.

B. Contestability of markets and allocative and technical efficiency

17. The efficiency gains that are derived from liberalization are likely to be of two sorts. Reducing trade barriers brings domestic prices in line with international prices and allows producers to adjust their mix of inputs and outputs accordingly. Domestic producers tend to specialize in those industries in which they are the most efficient (relative to other producers) and to use a combination of inputs - imported or produced domestically - that will give them the greatest amount of output at a given cost or the lowest possible cost for a given output, everything else being held constant. Overall welfare increases simply because more can be bought and more can be produced simply from shifting the mix. This increase in efficiency is essentially static; it is an increase in allocative efficiency.

18. But the adjustment to liberalization is never a static process. Faced with shifting factor prices and faced with new competition, firms will not simply adjust their mix of inputs or the nature of their output. They will respond by trying to change their way of doing business and increasing their productivity to reposition themselves in the market-place. These gains usually are referred to as increases in technical efficiency. Liberalization *per se* may not necessarily increase productivity directly, but it usually does so indirectly by providing incentives for greater entrepreneurial effort in the face of competition and the development and acquisition of know-how. In addition, economies of scale due to increased production for a wider international market, and innovation and growth stimulated by greater macroeconomic stability and credibility for government policy, may also lead to increased productivity.

III. INTERNATIONAL TRANSACTIONS IN SERVICES: LOWERING BARRIERS AND IDENTIFYING A CONTEXT FOR LIBERALIZATION

19. A peculiarity of international transactions in services is the lack of substitutability, in general, between cross-border trade and other modes of delivery by foreign providers as in the case of goods. Most services that are exchanged internationally are delivered through either FDI, the movement of service personnel to the importing country, or the movement of consumers to the exporting country. Pure "cross-border" trade exists but tends to be limited to a few services (most transportation services, some telecommunication-based services and a few others). Most international trade in services requires the use of any one of the three other aforementioned "modes of delivery", often in combination with one another. This is so simply because of the need of most services to be produced when and where they are being consumed.

A. Instruments restricting international transactions in services

20. Typically, countries restrict competition from foreign service providers in their domestic markets through an arsenal of barriers - more or less restrictive - that cover the four possible modes of delivery. These barriers, or instruments of protection, fall into three broad groups: those that affect

market access for foreign providers of services; those relating to the standards of treatment accorded to foreign providers; and those that relate to the general regulatory framework for services. The first two groups are explicitly directed towards foreign service providers, while the last one comprises measures that have an unintended but often significant influence upon market access or standards of treatment afforded to them.

21. A large part of international services transactions takes place through FDI. It is therefore only natural that many of the most important restrictions to international services transactions are rules and regulations on such investment. Barriers to market access for services provided through FDI often take the form of economy-wide prohibition, industry-specific prohibitions of foreign ownership or limitations on the extent of foreign equity permitted. These barriers are becoming much less common, although prohibitions in what are considered strategic sectors still exist. Prohibitions and restrictions on participation by transnational service corporations may be quite costly in terms of economic welfare; other alternatives, such as joint ventures, should be considered if a sector is thought to be too sensitive to allow foreign control. Experience shows that it is typically possible to find a less restrictive measure meeting an objective related to the protection of the national interest while at the same time taking advantage of efficiency gains permitted by FDI.

22. Measures that limit the national treatment of foreign providers are more common in the regulation of FDI than are outright prohibitions of entry. These include regulations that discriminate against foreign providers of services by denying them access to preferentially priced inputs and investment incentives; imposing performance requirements such as trade-balance or export targets, sometimes as conditions for receiving investment incentives; restricting external financial transfers; and imposing differential tax regimes on foreign as compared with domestic firms. These policies, often implemented in combination, may alter the comparative incentive structure for foreign and domestic firms considerably. Often, the existence of performance requirements, rules relating to external financial transfers and discriminatory taxes is at odds with incentives specifically implemented to attract FDI. Policies that encourage non-discrimination between domestic and foreign investors and among industries are almost always preferable if the objective is to promote a more efficient allocation of resources.

23. Even if policies that restrict market access or deny national treatment are absent, domestic regulatory policies may discourage FDI in services. The general regulatory framework, including the guarantee of property rights (intellectual and otherwise), regulations that restrict market entry and business behaviour generally (such as prudential regulations in the financial sector), and competition policy may contain elements that discriminate against new or foreign entrants and lead to non-competitive markets.

24. With respect to the movement of labour, a mode of delivery of services that is often complementary to FDI, instruments affecting market access include rules and regulations relating to visas, residence permits, work permits and professional or craft licensing requirements. While these instruments have legitimate uses in the context of a country's immigration policy or in the

assurance of the quality of professional services (such as, for example, the licensing of doctors or lawyers), there are situations in which they could act as significant obstacles to trade in services. Some countries allow the temporary entrance of workers to alleviate shortages of unskilled labour, but it is less common for countries to allow the free flow of professional services providers. Professional, skilled and specialized work often is tightly regulated, and differences in regulatory systems across countries make international transactions in professional services more difficult. Some countries and professions follow a State-regulated licensing procedure, while others allow professional associations to regulate themselves. These differences create the necessity for either standardizing licensing requirements across countries or creating mechanisms for the mutual recognition of qualifications for licensing. Partial mutual recognition of licensing qualifications has been implemented between a number of countries in the European Union.

25. Restrictions that affect the national treatment of labour typically consist of rules that make it more onerous for foreign workers to reside in the importing countries than it is for domestic workers. Foreign workers may be restricted in where they may live or travel while residing in the importing country, may be forbidden to bring their families, may be taxed at higher rates than domestic workers, may be discriminated against in the workplace and so on.

26. Instruments that control the movement of services consumers are similar to instruments that limit the movement of labour for the provision of services. One significant difference is that the measures affecting the movement of consumers are often imposed by both the service-importing and the service-exporting country. With reference to tourism, for example, the movement of tourists can be restricted by exit visas in the country of the tourist (the importing country), or by entry visas in the receiving country (the exporting country). In addition, restrictions on the availability of foreign exchange for tourists and restrictions on the convertibility of a currency are instruments that may restrict international transactions in tourism services that take place through the travel of consumers.

27. Finally, there are the instruments that affect pure cross-border trade in services. The instruments that are applicable to this kind of services trade include quantitative measures affecting market access, price-based instruments affecting the relative competitiveness of imports, and others that are part of the general policy framework but have indirect effects on services trade. An example of market access or quota-like instruments are the local content rules that some countries impose on the production and distribution of television and radio programmes or conference market-sharing type of agreements that prevail in much of the international maritime transportation industry. Price-based instruments include taxes on cross-border imports of services and subsidies to domestic service providers.

B. Lowering barriers to international service transactions

28. In light of the above, the practical implementation of the liberalization of international services transactions raises the question of which barriers to

competition from international service providers should be lessened first, when it is impossible to liberalize completely.

29. International trade theory - developed mostly to look at trade in goods - teaches that, when limiting access or treatment of foreign service providers, some instruments are superior to others, either because they are less distortionary, thus more efficient, or because they are easier to implement and more transparent. For example, if the promotion of a domestic industry is the desired goal, a subsidy is usually superior to a tariff because it is targeted directly at the producers, while a tariff affects consumers as well as producers. Similarly, in most cases, a tariff (or some other price-based instrument) will be superior to a quota (or some other quantity-based instrument). This is especially the case when foreigners receive the scarcity rents that accrue from quantity restrictions. In general, also, if a restrictive policy must be implemented, one that raises government revenue is superior to one that does not.

30. Because of the nature of international service transactions, this traditional ranking of trade policy measures may be difficult to apply directly to services trade. Tariff measures are the exception, and it is not all that clear that many of the quantity-based measures found in the services sector (for instance, those associated with the licensing of professions) can easily be transformed into tariff-like measures. The majority of instruments used to limit international transactions in services would seem to fall under either quantitative-type restrictions (mostly restrictions on market access) or certain price-type restrictions (mostly domestic subsidies or hidden taxes which are limitations on national treatment). If this generalization broadly holds and if a similar rank-ordering of measures applies to services as it does to goods, then the broad rule might be that limitations on national treatment of foreign service providers are preferable to restrictions on market access because they are less distortive of overall efficiency, hence of overall economic welfare.

C. Unilateral or multilateral liberalization?

31. Liberalization of international transactions in the quest for greater efficiency in the services sector does not necessarily need to be pursued in a unilateral context. In fact, there are a number of benefits for developing countries in liberalizing their services through bilateral, plurilateral or multilateral agreements. One of the most palpable benefits is greater access to other countries' services markets as reciprocal liberalization takes place, enhancing the prospects for exports needed to compensate for the increase in imports likely to result from domestic liberalization, and thereby reducing opposition to liberalization initiatives. Another benefit stems from the added credibility that international contractual obligations confer on liberalization, by giving Governments more leverage to fend off interest groups wishing to erect barriers to international competition. A third benefit from multilateral efforts is that the procedures for liberalization and concurrent policy reform are better defined, and regulatory standards exist which help developing countries avoid unnecessary competition among regulatory systems.

32. The principal multilateral arrangement for liberalizing international transactions in services is the new General Agreement on Trade in Services (GATS) which is part of the multilateral framework for trade that has been negotiated during the Uruguay Round. The GATS presents the most comprehensive approach to the liberalization of international service transactions, and its concepts, principles and rules will serve as the point of departure for future rounds of negotiations. This will, inter alia, enable developing countries to negotiate reciprocal concessions from developed countries in return for granting access for FDI to their services sectors.

33. While GATS does not give developing countries preferential and differential treatment in the formulation of their commitment to market opening, it does recognize their need for gradual liberalization based on their degree of development. Furthermore, article 19.2 of the Agreement recognizes the right of developing countries to attach conditions (such as performance requirements) to the market access granted to foreign service suppliers. The Agreement also recognizes the possibility of a need for strengthening regulation at the same time that liberalization occurs. Other articles of the Agreement recognize developing countries' need for technology transfer in services, their need for technical assistance, and other issues of direct relevance to them.

34. In addition to the GATS, there are a number of other international agreements providing for liberalization in international transactions in services. Examples of these are preferential trading agreements among developed countries, among developing countries and among the two groups of countries. Such preferential trading agreements are second best when compared to multilateral agreements, since they inevitably involve some costs in terms of trade diversion. But they may lead to many of the benefits that multilateral negotiations confer. Moreover, they may act as "laboratories" for multilateral negotiations.

35. Other international mechanisms affecting international transactions in services include international agreements at the industry level. Examples of these are the International Civil Aviation Organization, the Basel Committee on Banking Regulation and Supervisory Practices and the International Telecommunication Union. These agreements are useful in that they set standards for the functioning of these industries which may facilitate international trade in services. International agreements at the industry level can, however, have anti-competitive effects in the international market under certain conditions.

36. While one of the major benefits of bilateral, plurilateral or multilateral liberalization might be to secure greater access to new markets, such mechanisms may also seriously limit the extent to which a given country ends up opening its own market to competition. After all, in a negotiated process, no one typically gives more than it needs to respond to the offers of other parties. The implication is that a country may end up holding back longer than it ought to regarding the liberalization of its own market simply because it is awaiting reciprocal opening from other parties. And this may come at the cost of perpetuating domestic inefficiencies longer than necessary. The implication of these observations may be that, in a number of cases, unilateral and multilateral (or bilateral or plurilateral) liberalization are not the neat alternatives that they might appear to be at first sight.

IV. PRELIMINARY LESSONS FROM THE FIELD PROJECTS

37. Six preliminary lessons derived from the field implementation of EFDITS are highlighted in the following sections:

1. Inefficiency in services entails significant economic costs for developing countries. This is especially true when inefficiencies are in producer-service markets. It is, therefore, useful to price the costs of inefficiencies.

2. In liberalizing services, special attention should be paid to the interaction among a multiplicity of sectoral policies. To avoid policy conflicts within the services sector, reform should often be carried out at the level of "service complexes", rather than individual service industries.

3. Liberalization of services supports broader objectives of macroeconomic adjustment and restructuring.

4. When liberalizing services, an optimal sequencing of policy reform includes some attention to macro-regulatory issues prior to attempting reform at the level of particular service complexes.

5. Liberalization of services can be achieved successfully only if a political consensus exists to back up reform.

6. The lack of appropriate complementary reforms, such as anti-trust or competition policies, may hinder the progress of liberalization reforms and diminish the efficiency or welfare gains that follow it. This is particularly true for services where experience with competition is often even more limited than in goods industries.

The first four lessons are key building blocks for forging the consensus discussed later. The last lesson, finally, covers a set of issues that can usually be taken up after the mechanics of service reform has been launched. Naturally, the applicability of each of the lessons depends on the concrete circumstances in each country and each service industry and needs to take into account that the introduction of liberalization often entails a number of risks. Liberalization should, therefore, be introduced with care. In particular, different service industries may need to be approached differently, keeping in view the specific situation and objectives of a given country, and recognizing that liberalization often also requires the simultaneous strengthening of various (e.g., prudential) regulations.

A. The cost of inefficiencies

38. As it has been pointed out earlier in this report, a key factor leading developing countries to consider reform in services industries is the recognition of the high costs of inefficiencies in those industries. Assessing

the cost of such inefficiencies may be an important ingredient in building a consensus for reform and in identifying where reform is most needed.

39. Costing inefficiencies in services is far from being a trivial exercise, however. Such costs are not only associated with the inordinately high prices of individual services that sometimes result from relatively protected markets, but may also include the poor quality of the services offered, the restricted range of services, the absence of innovation and the consequent low levels of productivity and low productivity growth in the sector. From the point of view of service consumers - be they final consumers or intermediate users - the cost of inefficiencies is the functional equivalent of a consumption tax that reduces their welfare or diminishes their competitiveness.

40. Field implementation of the EFDITS project confirms that inefficiencies that exist among producers services are of particular significance. This is so because inefficiencies in one producer service industry will often reverberate far and deep through a large number of other industries. Concrete examples encountered in the course of the field projects are numerous. For instance, it was noted in several countries that the absence of a reliable telephone system often denies commercial banks the ability to introduce a network of automated teller machines (especially if they are prevented by regulation from installing their own telecommunication networks independent of the State-monopolies) and, in turn, the productivity gains and cost reductions associated with such systems. Banking transactions in developed countries carried out by automated teller machines typically are associated with a nearly 75 per cent reduction in the unit cost of transactions compared to transactions carried out over the counter with a teller. Likewise, poor telephone communications may deny business people access to reliable facsimile transmission which has become a sine qua non of doing business in international markets. Similarly, inefficiencies in the transport infrastructure were also noted as having vast implications for an entire economy: for example, agricultural products languish and perish before reaching consumer markets; exporters are unable to ship their wares on time and at competitive prices; tour operators cannot bring visitors to demanded tourist sites within reasonably competitive price and time ranges, losing export opportunities to foreign competitors.

41. Field implementation of EFDITS suggests that there is a need almost everywhere to cost inefficiencies among key groups of producer services, because they are so pervasive and so costly to the economy at large. Examples of groups of services to be considered here include transportation and distribution logistics, including as they relate to import/export; financial and ancillary services (such as accounting, legal services, telecommunication services, financial markets, insurance markets); services to industrial and commercial investments including roads, water and electricity supply; and construction and engineering services and related services.

42. In the case of import/export logistics services, for example, producers and investors in developing countries are usually highly dependent on imported capital goods and intermediate products, and inefficiencies in the import infrastructure add considerable costs to domestic producers. In addition, many developing countries are highly dependent on the export of agricultural commodities as a major source of foreign exchange. Inefficiencies in the export

infrastructure act like a tax on exports. They make it more difficult for exporters to diversify away from traditional agricultural products. They translate into foregone exports and foreign exchange.

43. A concrete example of the costs imposed by such inefficiencies was developed for the case of transit trade to and from Uganda by examining the costs of different components involved. The country depends heavily on transit trade through Kenya and the United Republic of Tanzania for the bulk of its exports and imports, the great majority of it being by truck between Mombassa, Kenya, and Kampala, Uganda. The biggest problems are experienced on the import side.

44. Transit time for imports from arrival in Mombassa to the owner's warehouse in Kampala typically takes four weeks on average. One week on average is spent in Mombassa, waiting to unload cargo off the ship. As of the summer of 1993, only one of 22 cranes was in operation in Mombassa creating a massive queuing problem. Of the remaining three weeks of transit time, trucks are idle for a total of seven to nine days: two days in Kenya due to the system of guarded convoy used to avoid highway robberies; two days due to delays at the border crossing; and three to five days in the customs compound in Kampala awaiting inspection and clearance. At an estimated cost of approximately $300 per day (including costs of amortization and labour associated with a truck, financing of the idle inventory in the truck and related cost-functions), it is estimated that the overall cost of inefficiencies associated with the idleness of freight and transport capacity amounts to $36 million per year, which is close to half the $73 million in total road freight paid by the country's importers and exporters in 1992. In other words, freight rates could be reduced by almost half if these delays were avoided. Combining this cost of idle time with an estimated cost for "facilitation and attendance" fees of about $15 per metric ton (quite small relative to the costs of idleness), it is estimated that these combined inefficiency costs amounted to almost 10 per cent of the cost-insurance-freight value of imports.

45. In addition to these direct costs, there is an opportunity cost due to the loss of revenue that the trucks could earn if they were not idle. Reducing the idle time of trucks would mean that the country could transport the same volume with fewer trucks and would require a smaller investment in the fleet. This is important in light of the fact that, under the current conditions of transit by road, trucking capacity often falls short of demand. This confers some degree of oligopolistic market power to truckers and, most likely, allows them to charge prices above competitive market value. It also contributes to the current incentive not to invest in new capacity. 6/

46. The high cost of inefficiency is not exclusive to the transportation sector, as an example drawn from the telecommunications industry and based on the implementation of EFDITS in Tunisia illustrates. In most developing countries - and, until recently, in most developed countries - telecommunications services have been reserved to monopolies, usually State-owned. But in the light of rapidly changing demand and technology, most countries have begun to venture in directions intended to open part of the industry to competition. In Tunisia, the Government decided several years ago

to attempt a partial opening of the industry and to allow that construction work associated with the expansion of the telecommunications network be supplied by the private sector. Until that point, all of the work associated with laying out the wire network was carried out by the State-monopoly itself.

47. First, the Government spun off the old construction arm of the telecommunications monopoly. Shortly thereafter, it allowed new entrepreneurs to come in and bid on tenders. This shift in policy has proven to be a step in the right direction, especially by increasing construction capacity. However, this shift in policy towards liberalization has not yet yielded the results that were expected, for a number of reasons. First, telephone cable for the expansion of the network continues to be supplied by a local monopoly. The price is high, the quality is reported to be unreliable and production schedules may not match construction schedules so that construction teams are left idle, waiting for cable delivery. In addition, the private construction industry that has grown following the opening of the market thus far has consisted of a few small, largely inexperienced companies. Needed assistance, especially in the area of quality control, has not been provided to these firms; the end-result has been that the country's significant investments in the expansion of the network in recent years has not resulted in the expected increase in the quality or the quantity of telecommunications services, or in additional revenues to the telephone company. The lessons from this particular case are not necessarily that the opening of the market was in the wrong policy direction, as much as that the degree of opening was probably insufficient. In particular, opening this particular market to foreign firms would most likely help set higher standards of performance and quality for everyone.

48. Thus, inefficiencies in the service sector entail significant economic costs for developing countries. This is especially true of inefficiencies in producer services. Assessing the cost of such inefficiencies may be an important ingredient in building a consensus for reform and in identifying where reform is most needed.

B. Service complexes

49. Services often are provided in conjunction with other goods or services. This is not only true of producer services, as it has been explained earlier, but of most other services. This suggests that policy reform in one service industry may turn out to be ineffective or to contradict policies in existence in another industry unless the needs for reform are examined at the level of a "service complex". A service complex may be defined as a subsystem of service activities closely linked by input-output relationships. The service complex concept is designed to capture a set of interrelated service industries and their interaction with other downstream industries, either in the production of goods or services. The technical challenges associated with the design of liberalization reform in services are likely to lie at the level of the service complex, though relevant experience with regulatory reform at that level is more limited.

50. Examples of service complexes abound. In addition to those already suggested in the previous section in the context of producer services, one might

point to tourism or retail distribution as other examples. The tourism product, by definition, is a composite service made of transport (air, road, rail etc.), lodging (hotels, lodges, camp sites etc.), eating, tour-operation and other services. Retailing, as a service complex, involves not only the stores that sell to the final consumers but also the wholesale and logistics infrastructure behind them.

51. The tourism service complex as examined in the context of Uruguay exemplifies the problem of conflicting policy objectives. The country has a well-developed tourism sector, though one based largely on a mono-product. The sector caters principally to a relatively well-to-do population of Argentinians vacationing in Punta del Este for long, family-oriented, summer vacations in individual villas or condominiums. One goal of the Government is to diversify the industry in part by developing services for the international market. A peculiarity of this market is that it demands both much shorter and much more service-intensive holidays (including greater demand for transportation, hotel, restaurant, retailing and entertainment services). In addition, recent changes in demand in Uruguay's traditional market are also pushing some of its Argentinian clientele in the direction of looking for shorter holidays based on the use of rentals (rather than ownership).

52. A study of the tourism sector carried out in the context of the EFDITS project determined that there were a number of significant barriers to a transformation of the sector, and particularly its diversification along the lines envisioned by the Government or suggested by the market. Several main barriers were identified, especially in international air and land transportation and in certain entertainment services (in particular, casinos). Additional barriers were identified in the regulation of rental property (including time-sharing) and in local car rentals. For both international air and land (bus) transportation, existing national regulations that protect and promote domestic carriers at the expense of international competition constrain the flow of new tourists into the country. This is particularly problematic at a time when the capacity to transport tourists needs to increase rapidly since any tourism-product based on short-term stays implies more frequent flows of people in and out of the country. For casinos, certain existing regulations protect the first entrant into the market, essentially providing it with a local monopoly and thus limiting competition in that service. The resulting need for policy changes was identified, including a new policy framework for both road and air transportation that allows for a much greater participation of foreign firms in those industries, consistent with the country's needs in the area of tourism.

53. Another example of the need to coordinate reform across several industries to avoid conflicts can be found in Tunisia's experience with the liberalization of its import and export logistics service complex. Until recently, the existing set of policies that regulated freight forwarding and international transportation restricted the volume of available capacity for the country. There was a shortage of transportation and freight clearing capacity, with commensurate high shadow prices and, more often than not, low quality. Partly as a means to address this bottleneck, foreign investors that had been attracted to the country specifically to develop an export sector, began looking for an

opportunity to put in place their own freight clearing and forwarding capacity. But, as it turned out, the Government had, unintentionally, laid down requirements that were lower for foreign firms than for domestic ones, putting the latter at a competitive disadvantage. One burden on domestic firms consisted of a requirement that domestic firms have a minimum amount of hauling capacity, half of which had to be two years old or less. In contrast, no such requirement applied to foreign firms. In addition, restrictions instituted by the Central Bank on capital export by Tunisian entrepreneurs prevented the latter from opening agencies in major receiving countries, denying them the ability to offer point-to-point, one-stop service. No such limitation applied to foreign firms. While the entry of foreign firms into the sector brought much-needed capacity to the sector, the immediate impact of these policies distorted the development of a domestic capacity. Only after these conflicts were detected and resolved was the domestic industry able to grow rapidly.

54. In liberalizing services, therefore, special attention needs to be given to the interaction among a multiplicity of sectoral policies. Specifically, to avoid conflicting policies, reform should often be carried out at the level of a group of services, or "service complexes", rather than individual service industries.

C. Broader macroeconomic objectives

55. Although some level of macroeconomic stability and macro-institutional reform is desirable before initiatives for the liberalization of services take place, services liberalization can also be important in solidifying reform, including in non-services sectors, in enhancing the credibility of government policy and in improving the chances that reform will lead to long-lasting macroeconomic stability and growth.

56. An example that illustrates this point can be taken from retail distribution. Retailing can be an important component in the success of trade and investment liberalization initiatives. As tariffs and duties on imports are lowered and as barriers to FDI are lessened, retailing distribution channels may slow or speed up the process of penetration of newly competing imports or goods and services domestically produced by foreign firms and their impact on the economy. Thus, if cheaper imports or new goods and services locally produced by foreign affiliates are allowed to reach the consumer faster, they may help in slowing down inflation at the same time that they contribute to increasing consumer's welfare. In addition, if cheaper imports or locally produced foreign goods and services are allowed to compete with domestic goods or services more intensively, they put additional pressure on domestic producers to adjust and become more efficient. Conversely, if the retail distribution infrastructure slows down the penetration of imports and locally produced goods and services, the potential beneficial impacts of trade liberalization will likely be delayed. All of this is a function of how quickly or slowly the retail distribution system adjusts to accommodate the entry of new products and services. In part, this is likely to be a function of the competitiveness of the local retailing sector as defined by price levels, quality and diversity of products, quality and diversity of services rendered by retailers, and the ability of retailers to innovate and keep up with the latest trends. In turn, this might be influenced

by the degree to which the country allows foreign retailers to come in and compete. In the case of countries that have a long tradition of protecting their retailing sector, it most likely means allowing, in the market, newer and more efficient retailing technology.

57. The macroeconomic benefits of services sector reform are not restricted to the retailing sector, but can flow from reform in all areas of services, and, as it can be deduced from earlier discussions in this report, especially from reform in producer services. In general, reform in the services sector can help fight inflation, enhance the efficiency and export competitiveness of the economy and, perhaps most importantly, facilitate the adjustment of producers to a more open and competitive economic environment. In sum, the benefits of services sector reform go beyond the narrow confines of the sector itself.

D. Sequencing of policy reform

58. An essential element of successful reform of the services sector is a proper sequencing of policy changes. There are indications from the experience of individual developing countries, including those where field implementation of EFDITS is under way, that a number of macro-regulatory reforms ought to be in place before a Government can successfully address reform at the level of a service complex. These include, in particular:

(a) The implementation of an investment code (or an equivalent set of laws and regulations) that offers well-defined protection for private investors, no discrimination between domestic and foreign investors and minimal distortions among sectors;

(b) A reform of the tax regime consistent with the aims of the investment code, including non-discriminatory treatment among firms on the basis of nationality or industry, and an emphasis on a stable and predictable tax regime;

(c) Changes in the immigration law, especially that part of it that applies to the entry of staff of foreign firms;

(d) Changes in foreign exchange regulations geared towards the opening of the country's current and capital account;

(e) Changes in intellectual property laws;

(f) A privatization and/or deregulation programme;

(g) Changes in certain labour laws.

59. Perhaps the most important reason for these preconditions is that they establish a better environment for the entry of FDI into a country. Successful reform of the services sector that attempts to enhance the participation of foreign service firms will virtually require flows of FDI, since this is the principal mode of delivery for foreign service providers. To a great extent, each of the reforms listed above affects FDI, including FDI in services. This

is particularly true, of course, of the first reform listed here, namely the reform of investment laws or codes.

60. There is a growing agreement among countries that have liberalized their economies that the best investment law is one that discriminates least among investors (foreign or domestic) or among sectors. The alternative tends to create distortions that are either costly to Governments or to economic efficiency. For example, investment regimes that seek to provide incentives to a group of investors will more often than not result in a loss of fiscal receipts. Those that tend to channel foreign investors into a particular industry will usually limit the benefits of reforms even within the sector that has been liberalized. For example, a number of developing countries have followed export-driven development policies that focus on the creation of manufacturing exports enclaves with few links to production for the domestic economy. While such policies may have undeniable short-term benefits (creation of a new source of export, experimentation with limited liberalization with high-visibility value to assist in changing a country's political attitudes about foreign investment), they have longer-term limitations. Typically, they leave in place a highly protected services sector in the domestic economy. Since a protected services sector may suffer from a lack of investment and tends to be inherently inefficient, it hampers the development of the very export sector that the policies of limited liberalization are trying to promote. Typically, exports are constrained by a lack of local service capacity and the poor quality of services available locally. The multiplier effect of the export sector on the domestic economy remains minimal. Exporters lose potential markets and, not unlikely, are constrained in their ability to move up-market. Their production remains limited to low value-added items.

61. Investment policy typically goes hand-in-hand with the fiscal treatment of investors, thus the complementarity of these two reforms. Services firms are often heavily dependent on soft technologies that are based in their human resources and that can be transferred only to the extent that sufficient staff from overseas is allowed to implement those technologies in the importing country. Thus the need to provide for immigration rules that permit entry of firm-specific staff.

62. Foreign providers will invest in a foreign country only to the extent that they know they are offered sufficient flexibility to repatriate earnings or sell their investments as part of the normal course of doing business. Conversely, too strict a set of regulations on access to foreign exchange and the right of domestic firms to undertake foreign investment may put them at a considerable competitive disadvantage against foreign firms at the very same time that they are being asked to compete with them. Witness the example from the EFDITS work in Tunisia cited earlier. Of course, this does not deny that the opening of a country's current and capital accounts needs to be done in an orderly fashion, with due attention to key considerations of monetary policy, including the possible impact of such policy on inflation or overvaluation of domestic currency.

63. The absence of reasonable protection of intellectual property rights may be a serious disincentive to foreign firms to bring the most up-to-date technology.

This may be particularly important in the case of services that are dependent on software-driven computerized technologies.

64. Services liberalization cannot occur short of a political commitment towards deregulation and, in some cases, privatization. In line with views put forward earlier in this report, deregulation, as used here, does not mean a shift from a regulated to an unregulated environment, but rather from one kind of regulated environment to a new one that recognizes the need for competition wherever feasible. Deregulation, as used here, does not necessarily mean a frontal attack on the monopoly of a publicly owned enterprise or its immediate elimination through privatization. There often are many different possible paths to a more competitive industry structure, and determination of the optimal way often varies greatly from industry to industry or from country to country. Still, in view of the fact that most countries do have laws that establish the monopoly of the State in a wide range of economic areas, there is a need to establish a Government's commitment towards liberalization vis-à-vis private sector investors - foreign or domestic - by modifying key aspects of those laws. In some countries, this may also involve changes in labour laws whenever they are part of the legal apparatus that serves to establish the monopoly of the State over certain sectors of the economy.

65. Even if the above preconditions are in place, there is a further problem of the sequencing of reform in the services sector: how is it possible to choose among different service complexes for the continuation of reform at the micro level? There are two possible approaches. First, a Government may choose to liberalize service complexes in which it feels the country has a strong comparative advantage. In this case, competition will result in a further strengthening of the sector's comparative advantage through increased specialization or diversification of the services offered. A second option might be to liberalize those service complexes where inefficiencies in services production are the greatest and where widespread support can be mustered from various sections of the economy for reform. In other words, it is hard to draw hard rules from the experience of individual countries on this particular point, except that much of the choice is a function of the nature and depth of the political consensus that a Government can establish. Thus, when liberalizing services, an optimal sequencing of policy reform includes some attention to macro-regulatory issues prior to attempting reform at the level of particular groups of services.

E. The need for political consensus

66. Reform can proceed only to the extent that a Government succeeds in establishing some degree of consensus over the need for reform. This consensus is necessary not only to implement particular packages of policy reforms, but also to maintain the credibility of government policy, particularly with respect to the irreversibility of reforms and the stability of the policy environment. Lack of sufficient consensus about the need for liberalization or about the speed at which liberalization should take place can result in significant delays in government-sponsored reforms or in imposing an effective veto on parts of a Government's liberalization programme.

67. Of course, the need for consensus is not unique to services reform. But it is important to remember that services often constitute the one area of the economy of developing countries in which both heavy regulation and State ownership are the most pervasive. This is the case partly for historical reasons. In some countries, the need to break away from the former colonial Power led to an earlier, extensive nationalization of the economic interests of the former dominating Power. This, typically, involved widespread nationalizations in the services sector. In other countries, it was the absence of a service infrastructure at the time of the break with the former colonial Power that led to a strong involvement of the State. Faced with the need to develop key infrastructure and the absence of private capital to do so, the State had to step in to develop enterprises in a wide range of areas (utilities, road transportation, rail, banking, insurance, shipping etc.). The result is that there is often a near-total absence of experience with competition in services and a highly charged political sensitivity in defence of the strategic role of the State in developing the services sector (even at the cost of overlooking current inefficiencies). The issue, of course, is not whether a State-dominated development of the services sector was justified when it occurred, but rather whether it is still justified. Still, the influence of the past on current political approaches cannot easily be ignored.

68. Pressures for services liberalization often tend to come from two places: exporters and parts of the public sector. Exporters, who see their efforts constrained by lack of access to technology and adequate business services are often strong proponents of reform. This sector tends to be well connected to the international market and aware of the need for efficient services to compete internationally. But pressures for service liberalization may also arise from within the public sector as financial constraints put pressure on a Government to divest itself of deficit-producing service monopolies. In a number of developing countries, it is the coalition of this internationally oriented business sector with a Government determined to promote fiscal reform that has been able to develop programmes for macroeconomic reform, and liberalization in both goods and services.

69. Consumers can also be strong proponents of liberalization. This is especially true in small, middle-income developing countries where a large population of consumers has some exposure to consumer goods and services available, under better terms, in other countries.

70. Liberalization rarely remains unchallenged, however, from sources both within and outside the Government. From within, developing countries must deal with large and cumbersome bureaucracies that were, at one time, the implementers of the State's dominance in the economy. These bureaucracies have a clear interest in maintaining their position, and are likely to fight any reduction in public sector employment that may result from allowing the private sector to take over some of the functions previously performed by the Government. In addition, even if there is widespread acceptance of the need to reduce the size of the public payroll and make the operations of government ministries more efficient and productive, there may be considerable political challenges involved in reforming wages and productivity in the public sector or laying off public sector workers.

71. In addition to objections from within, Governments wishing to allow a greater participation of foreign service providers in the economy may naturally face opposition from locally well-entrenched producers of these services who will see their dominant (and often monopolistic) positions in the domestic market challenged. Often these producers will be parastatal monopolies, as is common in the provision of telecommunications services, electricity generation and distribution, as well as transportation (State airlines or rail companies).

72. In some situations, the natural allies of Governments in promoting reforms - namely, exporters - may not stand strong in their resolve to push for reform. This is particularly the case when a Government has put in place an export-promotion policy that fundamentally subsidizes exporters. For that matter, this is one of the inherent risks of export-platform policies. Typically, such platforms are set up by giving fiscal incentives to potential exporters. These exporters may be both domestic and foreign investors. But if the size of the incentives is large enough, those investors may be willing to overlook the costs of an inefficient local services sector or adapt their production to match such inefficiency, in order to keep the fiscal benefits they receive. Over time, the result may be the formation of a new business class of exporters that ends up defending the status quo, rather than challenging it.

73. There is no single path to forming a political consensus around the need for services policy reform. To a very large extent, the situation is unique to each country. Still, the experience of the EFDITS project would seem to suggest that building a consensus demands everywhere that a Government integrates elements of all of the lessons already drawn up in this report. In order to enhance consensus, there is a need for a Government and those who support its position to demonstrate that the costs of inefficiencies are harmful to economic development and that the potential gains of reform for the economy at large ought to be seized. Governments must be able to identify groups of services where reform can be implemented in a way that will strongly demonstrate the benefits of services reform and strongly legitimate the contribution of further reform. But a Government must also concern itself with the need for certain basic macro-institutional reforms of the kind identified earlier in this report without which reform efforts, at the service-complex level, are likely to flounder.

F. Complementary anti-trust and competition policy

74. A further lesson, supported by the experience drawn from the implementation of the EFDITS project in several countries, is that regulatory reform and a relatively open investment environment do not guarantee freedom of entry for foreign service suppliers. Many countries may score high marks in terms of their treatment of foreign capital, their reform of the fiscal regime, the openness of their current and capital accounts and other needed reforms. Yet, these reforms accompanied by service-industry-specific reforms may not always result in significant new entry of foreign providers in service complexes targeted for liberalization. Two basic explanations may be offered for these limited results. The first is that the small size of the domestic market of these economies may present an obstacle for investors, who need to be guaranteed

that the market will demand a quantity of services consistent with a minimum efficient size of production before they can invest. An alternative explanation (not inconsistent with the small size of the market) is that collusive behaviour among firms already established in the market, a highly cartelized distribution system and other hidden anti-competitive barriers to entry (e.g., the social priorities of the State-owned enterprises and other large producers) may effectively bar the entry of foreign providers into the production of selected services, thus limiting the contestability of the markets involved.

75. The experience with the field implementation of the EFDITS project suggests that anti-competitive barriers almost always manifest themselves in the early phase of reform. Quite simply, when confronted with an environment to which they are not accustomed, old or new entrepreneurs alike will simply try to recreate the old environment, with which they are most familiar, under a new guise. Price collusion is usually the most benign form of anti-competitive behaviour. Producers simply agree to collude and recreate the industry price structure that existed before deregulation. In some cases, foreign providers already present in the market may be willing accomplices to this collusion. Stronger collusion may also involve market-sharing agreements as well as agreements to shut new entrants out of existing distribution networks.

76. One must be careful in over-generalizing lessons out of these cases. In some cases, the collusive behaviour that may have been provoked by the initial liberalization of a complex of service industries does not withstand very long the pressure of competition from new entrants. In other cases, however, the further implementation of some type of competition policy may be important to ensure that the benefits of liberalization are widespread throughout the economy.

V. CONCLUSIONS

77. There is a marked increase in the number of developing countries that are either contemplating or experimenting with liberalization in FDI and trade in services. This is the direct result of a growing understanding among policy makers of the contribution of services to growth and development and the high costs that inefficiencies in the sector would entail. More countries now perceive that sizeable economic benefits can be derived from fostering a greater contestability of their services markets and that such a process should involve not only new competition from domestic firms, but also from foreign service providers. The need to open domestic markets to foreign competition is based on a number of factors, including, in some cases, the scarcity of local resources that can bring new competition and the recognition that most services are increasingly competing in world markets, be it directly or indirectly.

78. To increase the contestability of service markets requires a reassessment of the way in which specific service industries are regulated so that new room can be made for some degree of competition where there often is little. That includes also a reassessment of long-standing barriers to entry erected against foreign service providers. The ensuing process of deregulation does not mean so much a shift from a regulated to a non-regulated environment, as much as an

attempt to strike a new balance between more competition and continued protection of legitimate needs for regulation.

79. Building a political consensus around the need for services liberalization is fundamental to the success of any services reform project. Field implementation of the EFDITS project suggests that a number of considerations are important elements in building such consensus and in ensuring that reforms do succeed. Specifically, pricing the cost of certain inefficiencies can go a long way in buttressing the case of those who are arguing in favour of liberalization. Demonstrating that the gains of liberalization need not be limited to the industries that are being reformed but can be widespread is also useful in that regard. Policy makers must also be cognizant of the fact that certain macro-institutional reforms need to be put in place early on for service reform to succeed. These are principally reforms that help define a new environment within which foreign service providers are guaranteed that they can compete.

80. When bringing reform to the micro-level, experience suggests that working at the level of service complexes ensures that the relevant policy and regulatory changes are made in such a manner as not to contradict each other. Finally, experience also suggests that once reform is under way, especially at the level of service complexes that have been targeted for liberalization, there may be a need to follow up with actions - policy or otherwise - to strengthen competitive behaviour.

81. The experience of the EFDITS project indicates that there is a definite need for technical assistance at the developing country level, particularly with identifying and mapping out needs for regulatory and policy reform at the level of service complexes. Those needs are often complex and typically uncharted. Unlike the situation for liberalization in the goods sector, there are still few rules or established best practices for liberalization in services. Benefits are most likely to accrue to those countries wishing to learn from the experiences of those that have already embarked on the reform process. A hands-on assistance programme, such as EFDITS, is positioned to do precisely that.

Notes

1/ See UNCTAD, Trade and Development Report 1992 (United Nations publication, Sales No. E.92.II.D.7), pp. VI-VII.

2/ See United Nations Department of Economic and Social Development, Transnational Corporations and Management Division, The Transnationalization of Service Industries: An Empirical Analysis of the Determinants of Foreign Direct Investment by Transnational Service Corporations (United Nations publication, Sales No. E.93.II.A.3); United Nations Centre on Transnational Corporations, Transnational Corporations, Services and the Uruguay Round (United Nations publication, Sales No. E.90.II.A.11); The Uruguay Round: Services in the World Economy (New York, United Nations and the World Bank, 1990); Services and Development: The Role of Foreign Direct Investment and Trade (United Nations publication, Sales No. E.89.II.A.17); Foreign Direct Investment and Transnational Corporations in Services (United Nations publication, Sales No. E.89.II.A.1); and Transnational Corporations and the Growth of Services: Some Conceptual and Theoretical Issues (United Nations publication, Sales No. E.89.II.A.5). See also United Nations Conference on Trade and Development, Trade in Services: Sectoral Issues (New York and Geneva, United Nations, 1989), and Services in Asia and the Pacific: Selected Papers (New York and Geneva, United Nations, 1990); and World Bank, The Contributions of Infrastructure to Economic Development (Washington, D.C., World Bank, 1993) and The Role of Support Services in Expanding Manufactured Exports in Developing Countries (Washington, D.C., World Bank, 1991).

3/ Based on World Bank GDP data at current prices. These figures understate the share of services in developing countries for two reasons. Utilities and construction, usually counted as part of the services sector, are excluded here. In addition, GDP figures undercount the importance of the informal economy, mostly services. See UNCTAD Programme on Transnational Corporations and the World Bank, Liberalizing International Transactions in Services: A Handbook (New York, United Nations publications, forthcoming), table 1.1.

4/ Thomas Stanback, et al., Services: The New Economy (Totowa, N.J., Allanheld, Osmun, 1981).

5/ Simon Kuznets, Modern Economic Growth: Rate, Structure and Spread (New Haven, Yale University Press, 1966).

6/ The UNCTAD Services Development and Trade Efficiency Division, with funds from various donors, is developing and installing a system called the Advance Cargo Information System (ACIS) to help improve the operations of the transport community in Africa.

ANNEX

The EFDITS project

1. The project on "Expansion of foreign direct investment and trade in services" (EFDITS) was initiated partly as a counterpart to ongoing liberalization efforts of developing countries in the area of trade in goods. The project seeks to assist those countries with the reform and liberalization of their international transactions in services. It is a joint endeavour of the UNCTAD Programme on Transnational Corporations, the World Bank and the Division of Global and Interregional Programmes of UNDP. The project focuses principally, though not exclusively, on the issue of strengthening the domestic capacity of developing countries in the area of services through the increasing participation of foreign service providers to the domestic economy through investment, cross-border trade, and other modes of service delivery.

2. EFDITS' operating plan has been designed so that assistance can be custom-tailored to the individual needs of the participating country. Specifically, EFDITS consists of three phases: (a) a diagnostic phase; (b) a recommendation phase; and (c) an implementation phase.

3. The balance of efforts placed on each of these phases is based on individual country-needs, as determined by the Government, through its designated focal point for the project, and the project's executing agencies. As a rule, however, specifications for the diagnostic phase are drawn up in part based on some initial understanding of what the participating country wants to achieve at the implementation stage. In addition, given the close interlinkages between international transactions in goods and those in services, cooperation is sought with the UNDP-World Bank Trade Expansion Programme and similar projects wherever appropriate and feasible.

The diagnostic phase

4. By their very nature, many service industries are heavily regulated. One concern of EFDITS is to assess the extent to which the traditional objectives of policy and regulatory measures in individual service industries (such as correcting for market imperfections, protecting national sovereignty, ensuring consumer or environmental protection) may conflict with objectives of efficiency and competitiveness. Another concern is to review the extent to which measures that tend to cut across service industries and are likely to fall somewhat outside the scope of issues addressed by industry regulators may also conflict with those objectives. Such cross-industry or "horizontal" policy instruments include foreign-direct-investment laws, transfer-of-technology codes, temporary migration regulations, transfer payment regulations, or certain trade laws. Likewise, EFDITS seeks to identify the strengths of the existing regulatory framework or the possible limitations of its effectiveness that may arise from the use of policy instruments that, unknowingly, may conflict with each other.

5. Three diagnostic studies usually are launched in each country in which the project is implemented, based on an assessment of needs, including:

(a) A review and assessment of the existing horizontal framework regulating or excluding the contribution of foreign service providers to a country's domestic capacity. This assessment focuses, in particular, on a clear identification of the explicit or implicit objectives of these instruments, the degree of their effectiveness in achieving such objectives following their introduction, and the overt or hidden costs of such objectives. For each instrument, efforts are made to quantify their effectiveness and costs using a cost-benefit type of analysis. For example, if the objective of an investment-incentive policy is to promote the growth of FDI in a particular service industry in a particular location, an effort is made to measure whether or not, in practice, such policy has resulted in the expected surge in investment in the desired location; conversely, an attempt is made to estimate the costs of the policy instrument (tax revenues foregone, cost of infrastructure etc.) so that the discounted value of those costs can be compared to the measurable gains (e.g., annual value-added created by the foreign investors that have benefitted from the policy);

(b) Two separate reviews and assessments of the overall existing regulatory framework for international transactions in services in two distinct service complexes. As in the assessment of horizontal measures, the objectives of the individual policy instruments that are utilized to regulate the component service industries of the complex are clearly identified, as are the degree of their effectiveness and their explicit or hidden costs. Likewise, weak links or possibly conflicting policies in the regulatory framework that define the environment of the service complex are identified and analysed.

6. In selecting two service complexes for detailed analysis, several criteria are used. In particular, complexes may be chosen because they represent industries of strategic importance to the country and are areas in which the Government is contemplating reform or has begun implementing reform.

7. The preparation of the three diagnostic studies is done by mixed teams of local and international consultants, with assistance from headquarters staff from the two executing agencies. Selected field missions to the country are conducted by the designated international experts who work jointly with the local consultants in their areas of expertise.

The recommendation phase

8. As the outcome of the diagnostic phase, a country report is prepared summarizing recommendations emerging from the field work.

The implementation phase

9. Implementation of the recommendations that arise from the diagnostic phase of EPDITS varies from country to country, based on interests and needs so that no set pattern of implementation can be suggested. However, a number of suggestions might be made as regards some of the directions that implementation may take.

10. For example, the assessment of horizontal (cross-industry) measures may suggest the need to revise a country's foreign investment code, its foreign

investment incentive programme, its temporary immigration regulations, its technology transfer provisions, or aspects of its service trade regime. If requested, the executing agencies can identify and bring to this issue special expert resources to assist the country in these areas. Similar assistance can be provided if the case-studies of complexes revealed specific policy-formulation needs for some of the component industries of these complexes.

EFDITS' institutional resources

11. EFDITS is executed jointly by UNCTAD's Programme on Transnational Corporations and the International Trade Division of the International Economics Department of the World Bank. Through their respective past work and through the staff involved in the project, the two executing agencies bring considerable expertise to bear on the project in such key areas as foreign direct investment and cross-border trade in services, movement of labour, tax and foreign exchange treatment of foreign investors, intellectual property rights, or economics of services.

12. Execution of the project relies importantly on the input of mixed teams of local consultants and international experts that are assembled to develop each of the diagnostic studies involved in the project. The involvement of local consultants in EFDITS' work is particularly important to the two executing agencies which attach high significance to using the implementation of EFDITS as an opportunity for building domestic policy-research and policy-making capacity in areas - services and development, international transactions in services, efficiency and competitiveness in services - which are relatively new areas of research and policy attention. Identification of the relevant case-studies for diagnosis is done during the reconnaissance missions that launch the project in the participating country. Diagnostic work is done by the consultants during a study mission to each of the countries scheduled several weeks after the reconnaissance mission. Implementation work is organized around a follow-up mission scheduled to take place once the diagnostic work has been completed.

UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/C.10/1994/5
23 March 1994

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Twentieth session
Geneva, 2-11 May 1994
Item 6 of the provisional agenda*

COUNTRY AND REGIONAL EXPERIENCES IN ATTRACTING FOREIGN DIRECT INVESTMENT FOR DEVELOPMENT

Foreign direct investment in Africa

Report by the UNCTAD secretariat

SUMMARY

African countries are keenly interested in attracting foreign direct investment. After a relatively good performance in the second half of the 1980s, however, the region as a whole did not benefit from the increasing flows of foreign direct investment to developing countries during the early 1990s: the continent's share in these flows declined from 12 per cent during 1986-1990 to 7 per cent during 1991-1992. Thus, while other regions of developing countries are increasingly relying on private investment capital in their external resources inflows, grants and official loans continue to be the principal source of such inflows to Africa. Still, African countries are making every effort, especially through the liberalization of FDI policies, to attract transnational corporations to all sectors of their economies. In fact, a number of countries have succeeded in attracting either relatively sizeable or growing flows, or both, either consistently over the years or in particular years. Their success demonstrates that it is wrong to assume that Africa as a whole is an inhospitable FDI location. Rather, differentiating analyses are required to determine the specific locational advantages of individual countries that are prepared to create a favourable investment climate.

* E/C.10/1994/1.

CONTENTS

	Paragraphs	Page
INTRODUCTION	1 - 2	5
I. THE REGULATORY FRAMEWORK	3 - 34	5
A. The national regulatory framework	3 - 29	5
1. Ownership and entry restrictions	6 - 13	6
2. Foreign exchange controls on the remittance of investment-related flows	14 - 17	8
3. Transfer of technology and intellectual property rights	18 - 22	10
4. Fiscal incentives and other promotion measures	23 - 29	13
B. The international regulatory framework	30 - 34	14
II. TRENDS IN FOREIGN DIRECT INVESTMENT IN AFRICA	35 - 50	21
A. Inflows	35 - 42	21
B. Non-equity investment and joint ventures	43 - 46	26
C. Stock and sectoral distribution	47 - 50	27
III. EXPLAINING TRENDS	51 - 68	31
A. General determinants	52 - 54	31
B. Structural adjustment programmes and foreign direct investment	55 - 60	33
C. The role of debt-equity swaps, privatization programmes and portfolio investment	61 - 68	35
IV. IMPACT OF FOREIGN DIRECT INVESTMENT ON THE ECONOMY	69 - 85	38
A. Output and employment	70 - 76	38
B. Domestic investment	77 - 78	41
C. Other areas of impact	79 - 85	42
V. CONCLUSIONS	86 - 90	46

CONTENTS (continued)

Page

List of boxes

1. Breaking new ground: Namibia's open policy regime 9

2. Transfer of technology regimes in Africa 11

List of tables

1. Bilateral investment treaties signed by African countries, January 1993 15

2. African countries signatories of four major multilateral investment conventions, January 1994 18

3. Inflows of foreign direct investment to Africa, 1981-1992 22

4. The largest host countries to foreign-direct-investment inflows in Africa, various measures 25

5. Stock of foreign direct investment in Africa, by home country, 1991 28

6. Sectoral distribution of the stock of foreign direct investment in Africa, by largest home country, most recent year 29

7. Share of the primary sector in the total inward foreign-direct-investment stock and flows, selected host countries, 1980s 30

8. Nigeria: sectoral composition of investment inflows, 1980-1990 ... 31

9. Foreign-direct-investment inflows from privatization transactions: Africa and other regions, 1988-1992 37

10. Share of gross domestic investment in gross domestic product, 1965-1991 41

11. Africa: external financial flows related to foreign direct investment, 1981-1992 44

12. Annual compensation payments in Kenyan enterprises, by type of ownership, 1985 45

13. The relative importance of foreign-direct-investment inflows to gross domestic product: Africa, Asia and Latin America and the Caribbean, 1970, 1975, 1980 and 1991 47

CONTENTS (continued)

Page

Annex tables

1. Inflows of foreign direct investment, by host country, various measures, 1981-1985, 1986-1990 and 1991-1992 55

2. Share of foreign direct investment in gross domestic investment, by country, 1981-1985, 1986-1990 and 1991-1992 58

3. External financial flows related to foreign direct investment, by country, 1981-1985, 1986-1990 and 1991-1992 60

INTRODUCTION

1. The Economic and Social Council, in its resolution 1993/49, requested the Secretary-General to prepare, for the twentieth session of the Commission on Transnational Corporations, an analytical and comparative report on the role of foreign direct investment (FDI) in Africa. The present report has been prepared by the Programme on Transnational Corporations in response to that request.

2. African countries are keenly interested in receiving FDI. For that purpose, they have improved, typically within structural adjustment programmes, their regulatory frameworks. In addition, they try to increase investor confidence through the conclusion of bilateral investment and tax agreements and membership in the Multilateral Investment Guarantee Agency. These changes in the regulatory framework are examined in section I. The analysis of trends in section II shows, however, that, for the continent as a whole, the FDI flows have not responded or, at best, have responded unevenly, concentrating either on the primary sector or a few small countries, or both. The reasons for this performance are discussed in greater detail in section III dealing with basic factors determining FDI flows. Although FDI in Africa has not been large (with a number of relative exceptions), whatever there has been has exerted an important impact on the economies of the host countries (sect. IV). Finally, in order to create an environment conducive to attracting foreign investment and enhancing its impact, it is not sufficient to deal just with the basic legal framework; rather, much more can and should be done, as discussed in the concluding section. While some of the necessary further improvements can be made only in the long term and, especially in case of the least developed countries, require considerable external assistance (e.g., in the area of infrastructure), others are under the control of Governments and can be dealt with in the short term.

I. THE REGULATORY FRAMEWORK

A. The national regulatory framework

3. Most African countries have now adopted national regulatory frameworks conducive to FDI. They permit profit repatriation and provide tax and other incentives to attract such investment. In addition, efforts to increase FDI inflows have included the simplification of the investment approval process (e.g., by setting up "one-stop" investment centres), the establishment of investment-promotion institutions and the increased use of representative offices abroad to publicize investment opportunities. The reformist mood has been widespread and, at times, has exhibited itself in quite rapid policy and legislative changes. For instance, in just one five-year period alone (between 1982 and 1987), about one half of all African countries either introduced or made adjustments to their investment codes or guidelines in order to attract more FDI. The end of the 1980s and the start of the 1990s also saw many other countries among the other half introduce new investment laws or amend the old ones. In addition, countries with a previous reputation of hostility to FDI, such as Ethiopia, Guinea and Mozambique, introduced new legislation offering a wide range of guarantees and opportunities for foreign investors. But even

countries that have traditionally been regarded as being more open to FDI, such as Kenya and Zimbabwe, also went out of their way to revise their regulatory frameworks to be more attractive.

4. While the liberalization of FDI policies has cut across virtually the whole of Africa, the approach taken to specific issues still varies among the countries in the region, as do the administrative practices with which they are implemented. Thus, some countries still maintain mechanisms seeking to protect domestic enterprises from foreign competition in order to encourage local industrial development. Some put emphasis on the encouragement of joint ventures with local partners while others are rather ambivalent about the issue. In addition, for a number of countries the objectives of FDI legislation remain the growth of specific industries, the transfer of technology and the promotion of exports, while other countries have broader objectives.

5. In spite of the different ways in which individual countries approach such specifics, a review of a sample of African investment codes shows that most of them address the full spectrum of issues that are important to a potential investor - from entry requirements and operational conditions to incentives and legal protection and guarantees. In all these areas, some general trends towards the liberalization of previous restrictions are discernible. The major ones are discussed in the following sections.

1. Ownership and entry restrictions

6. A common feature of FDI laws in force in Africa during the 1960s and 1970s were the provisions limiting FDI in any enterprise to no more than a specified percentage of the equity. These restrictions on foreign ownership have been substantially lifted in recent years and most African countries have revised their laws to remove or reduce such ownership limitations.

7. Many countries nevertheless still restrict FDI in certain key industries - either totally or up to a certain equity percentage. But even in such cases, the number of industries closed to foreign ownership has gradually been reduced as the liberalization process took hold. Ghana's Investment Code (No. 116 of 1 July 1985), for example, reduced the number of industries closed to FDI from 24 to 2. Other countries with similar restrictions, such as the Central African Republic, Guinea and Nigeria, opened up industries hitherto closed to foreign investors. A key case was that of Nigeria, one of the largest economies of Africa. There, the Indigenization Decrees of 1972 and 1977 had restricted FDI to not more than 40 per cent of the equity of an enterprise in many industries. In January 1989, these laws were changed so that foreigners could be the sole investors in all enterprises with the exception of banking, insurance, petroleum processing and mining. 1/

8. Restrictions on 100 per cent foreign ownership had been accompanied by the promotion and proliferation of joint ventures as a principal form of doing business in Africa. In the 1960s and 1970s, many Governments in Africa were very active in promoting joint ventures between national entities, including parastatals, and TNCs. In such joint ventures, the national entity would, often by law, have to hold at least 51 per cent of the equity. The emphasis on joint

ventures has now been largely abandoned. But while Governments are no longer keen to enter into business themselves, the regulatory framework in some countries indicates an inclination to continue the encouragement of joint ventures with private local investors. However, a major difference between the old laws and the new ones is that the new laws do not mandatorily require the formation of such joint ventures. They only encourage them. For example, the 1990 Foreign Investment Act of Namibia and the 1991 Investment Proclamation of Eritrea both clearly encourage joint ventures with local investors but emphasize that this is not an obligation to be imposed on foreign investors.

9. State disengagement from economic activities brought issues of FDI involvement in the privatization process. Some countries, such as Chad, Morocco, Mozambique, Nigeria, the Sudan and Uganda, have embarked on the outright sale of loss-making public enterprises, while others, such as Egypt, Ethiopia, Morocco and Tunisia, have chosen to follow a very cautious and gradualist approach to privatization and the reform of parastatals. A recurring theme in many countries with regard to privatization is how to address the cases of those firms with outstanding debts owed to foreign concerns, as well as how to secure indigenous ownership of assets in a situation characterized by a fairly narrow capital base in the private sector. Some countries, such as the Sudan, plan to tackle this issue by turning some of the affected enterprises into public limited liability companies with mixed share holdings.

10. Notwithstanding the liberalization of FDI regimes - at least in terms of removing foreign ownership limitations - most countries still maintain a requirement that the Government must approve the establishment of any FDI project. In other words, they have in place a "screen-and-approval" process for foreign investors. Thus, if a proposed investment does not qualify under some criteria stated in the investment code, it will not be approved and cannot be made. But some countries are recently adopting more open regimes. In some cases, such as Namibia, there is no approval process, and national treatment is assured under the law (box 1). In others, such as Mozambique and Eritrea, there is no specific requirement for FDI approval, but foreign investors go through an approval process anyway to obtain wide-ranging tax concessions.

11. There has, however, been increasing recognition of the need to reduce the bureaucratic overload that usually attends a screen-and-approval process. Thus, extensive efforts at simplifying approval procedures have taken place in many countries. In that regard, numerous African countries set up "one-stop investment shops" during the 1980s (e.g., the National Investment Board of Gambia, the Ghana Investment Centre, the Investment Promotion Centre of Kenya, the National Investment Commission of Liberia, the Nigerian Investment Promotion Centre and the National Investments Promotion Office of Zaire). A major function of all of them was to provide a "one-stop" approval facility within the government bureaucracy. The purpose was to eliminate as much as possible time delays associated with an approval process that depends on the operation of different government departments. In reality, however, many of them did not really facilitate the investment process as increased workload turned them into bottlenecks. Many countries are now reorganizing these agencies to focus more on promotional activities, as they reduce screening and approval requirements.

12. A general review of FDI entry procedures would not be sufficient without reference to the relevant sectoral laws that also impinge on the approval process. For example, in all African countries, minerals and petroleum in the ground are the property of the State and no one can prospect, mine or produce them without a license. Besides the basic requirements of the FDI legislation, the mining and petroleum laws of these countries therefore had extra built-in approval procedures that could, if not reviewed, in some instances defeat the purpose of new FDI laws.

13. Not surprisingly, the 1980s saw an extensive review of sectoral policies and the relevant regulatory framework, especially in the natural resources sector, so as to bring them in line with the general trend of FDI policy liberalization. New or revised legislation governing mining and petroleum exploration were, for example, enacted in Burundi, Ghana, Kenya, Nigeria, the Sudan, Uganda, the United Republic of Tanzania and Zambia. One of the main trends of these new laws was to move away from a mandatory requirement that Government must have equity (often in the majority) in mineral ventures. The new policy reflected in these laws is that adequate public interest controls can be achieved by the Government in its capacity as regulator, and that well-designed tax arrangements can achieve an adequate revenue share to Government without the expense and risks of ownership participation.

2. Foreign exchange controls on the remittance of investment-related flows

14. Many African countries suffered from severe foreign exchange shortages during the 1970s and 1980s and thus imposed restrictions regarding capital outflows including profit remittances. Many still have these shortages. In those countries that use the Franc CFA currency, remittance was not a problem in principle since convertibility with the French franc at a fixed rate was automatic. But since 1990, restrictions operating within the banking system of the CFA countries have effectively reduced the automaticity of transfers even in those countries. Over the years, many Governments recognized that their foreign exchange control laws were a strong disincentive to foreign investors. The solution then adopted in many countries was to guarantee foreign investors a right to repatriate their capital and profits, thus exempting them from the otherwise restrictive foreign exchange regime.

Box 1. Breaking new ground: Namibia's open policy regime

The starting-point under Namibia's foreign investment law is that all FDI, without a process of prior approval, is welcomed. Foreign investors receive national treatment. They enjoy the same rights and are subject to the same obligations as a national engaged in similar activity. Instead of providing specific concessions for FDI, Namibia encourages all investment including FDI by taxing all investors at a relatively low level compared to other countries.

The Government chose not to follow the practice in some other developing countries providing special fiscal incentives such as tax holidays, import duty concessions and the like. The reasons stated in the Government's policy paper are as follows:

- in order to create stable conditions for economic growth, Namibia needs a broad revenue base which is not continuously eroded by piecemeal concessions;

- tax concessions could be wasteful since, in many cases, if other conditions are satisfactory, tax concessions will not be required to attract FDI;

- double taxation treaties, and the unilateral double taxation relief offered by many capital exporting countries, mean that the practical effort of tax holidays is often uncertain.

Nevertheless the Government recognizes that national treatment may not always be sufficient to attract foreign investors interested in major projects. The Government offers special guarantees for specified types of investments and the guarantees which focus on two principal concerns of large investors: security of title; and guarantees about the availability of foreign exchange to meet essential investor requirements. (An investor who opts to apply for these incentives has, of course, to undergo some form of approval process.)

In the case of concerns related to security of title, the Code provides that, in the event of expropriation, just compensation would be paid without undue delay; and disputes between investors and the State about compensation could, subject to the guidelines provided under the law, be referred to international arbitration. In the case of foreign exchange transactions, the Code sets out undertakings to ensure that foreign exchange will be freely available.

15. However, formal legislative restrictions have seldom been the key problem in relation to the repatriation of earnings. The most effective constraints on the repatriation of dividends and capital by the early 1960s were the foreign exchange "queues" which existed in most African countries. This was an arrangement by which central banks - facing balance-of-payments difficulties - allocated scarce foreign exchange to eligible companies. In practice this has meant that the foreign investor's right to remit profits can not always be implemented.

16. Only for firms (including foreign firms) that are exporters, the new legislative framework in many countries offers a more effective solution: foreign exchange retention schemes, that is, direct access to either all or a proportion of the value of their exports without having to first surrender it to the central bank. For example, Zambia's Investment Act of 1991 allows exporters to retain up to 70 per cent of export earnings in the initial years of investment and 50 per cent thereafter. Zimbabwe has a retention rate of 60 per cent for export earnings. 2/

17. An even more effective solution to this problem has been the introduction of liberalized currency markets as part of structural adjustment programmes. They have generally made it easier than before for TNCs to repatriate earnings. Though freeing exchange rates within the new regimes has increased the cost of foreign exchange, it has at the same time improved its accessibility and reduced delays associated with the central banks' queues. A number of countries (including Ghana, Uganda, the United Republic of Tanzania and Zambia) have adopted a free market in foreign exchange - commonly referred to as forex bureaux - in which transactions are not controlled by central banks. 3/

3. Transfer of technology and intellectual property rights

18. In the past, a number of African countries required all technology-transfer agreements to be approved by the Government. The practice today is much more flexible. In many cases, only broad criteria are indicated for the approval of technology-transfer agreements. Agreements that comply with these criteria are generally approved, and intervention is only invoked in exceptional circumstances (box 2).

19. The recent revisions of investment codes have not always addressed issues related to the tax regime affecting fees that may accrue from the transfer of technology agreements, as well as issues concerning the use of patents and intellectual property rights. Where they have been addressed, it has not always been done adequately so as to encourage the sale of technology or the provision of management expertise.

Box 2. Transfer-of-technology regimes in Africa

In dealing with the transfer of technology, African countries have adopted two main approaches. The first approach consists of the enactment of specific legislation dealing with the transfer and development of technology. The Nigerian legislation (Decree No. 70 of 1979) is a good illustration of this approach. The scope of application of the decree is rather broad, compared to the scope of application of the laws of other developing countries. The decree requires registration with the National Office of Industrial Property of all new and old technology agreements concluded by Nigerian companies with foreign enterprises. Specifically, the following categories of contractual agreements are subject to registration: the use of trade-mark; the right to use patented inventions; the supply of technical expertise in the form of plans, diagrams, operating manuals or any other forms of technical assistance; the supply of basic or detailed engineering; the supply of machinery and plant; and the provision of operating staff or managerial assistance and the training of personnel. Between 1979 and 1992, over 1,030 technology agreements were registered with the National Office of Technology Acquisition and Promotion.

The second approach involves the incorporation of special provisions relating to the transfer and development of technology in investment codes. Uganda is an example. The country's Investment Code 1991 established the Investment Authority as a central agency to promote, facilitate and monitor investment in the country. The Authority is designed to provide "one-stop" services to investors and is empowered to issue investment licenses, certificates of incentives and certificates of registration of agreements for transfer of foreign technology or expertise. Incentives are given to investors who contribute towards three or more of the Investment Code's objectives, such as net earnings or savings concerning foreign exchange; the utilization of local materials, supplies and services; creation of employment; promotion of regional development; and introduction of advanced technology or upgrading of indigenous technology. The Code provides for the beneficiaries to register agreements for transfer of technology or expertise with the Authority. It spells out conditions that must be contained in every agreement for the transfer of foreign technology. Each agreement must provide for technical assistance in connection with marketing programmes and purchase of equipment involving the use of technology or expertise; training of personnel; assurance of continued use of the acquired technology; and supply of spare parts and raw materials for a period of up to five years following the termination of the agreement. In case of payment of royalties, the fee charged should be reasonable and payment of such royalties should cease upon the termination of the agreement or if the technology becomes public knowledge other than through the fault of the licensee. The Code prohibits the inclusion of certain conditions in a technology agreement. These include conditions that restrict the use of other competitive techniques; restrict the manner of sale of products or exports; limit the ways in which any patent or other know-how may be used; or restrict the source of supply of inputs. The authority may exempt an investor from any of the provisions concerning conditions in the technology transfer agreements.

In some countries, the legislation of investment refers only to "technological inputs". For example, the 1987 Investment Code of Burundi defines the guarantees given for investment in Burundi, the associated rights and obligations and the various regimes under which investments may be made. Four regimes are envisaged to that end: the regime of the ordinary law, the approved priority activity, the officially agreed enterprise and the decentralized enterprise. The criteria that distinguish one regime from another are based, inter alia, on technological contributions to the country. For example, to obtain the status of a priority enterprise, the undertaking has to satisfy nine conditions including adequate technical guarantees and the dissemination and development of technology.

Source: Based on work of the UNCTAD Programme on Technology.

20. In the area of the protection of intellectual property rights, more than 30 African countries are members of the Paris Convention (table 2) and more than 20 are parties to the Berne Convention for the Protection of Literary and Artistic Works. In addition, two major regional organizations deal with intellectual property matters: the Organisation africaine pour la propriété intellectuelle (OAPI) and the African Regional Industrial Property Organization (ARIPO). The OAPI member countries have adopted a uniform system of protection whereby intellectual property-rights titles are granted on their behalf by the Organization.

21. In addition, most countries provide for the protection of patents, trademarks and copyrights under national legislation. In the field of copyright, African legislation is generally based on the 1971 Paris text of the Berne Convention. However, most African countries have no specific legislation on computer software nor do they protect it under their copyright legislation. As regards the term of protection for patents, some of the African countries grant 20 years from the date of application, while in others the duration of protection is shorter - 10 or 15 years - but it may be extended. In the case of the OAPI countries, the extension is granted only if the invention is being worked in the territory of a member State or if there are legitimate reasons for non-working.

22. Some of the patent laws of African countries do not contain any provision on compulsory licences. This is the case, for example, for Botswana, Burundi, Liberia, Mauritius, Morocco, Rwanda, Sierra Leone, Tunisia and Zaire. For most of them, both the grounds for granting such licenses and the time-frame within which they may be granted are explicitly based on Article 5A of the Paris Convention. In a number of countries (Sudan and the OAPI member States), compulsory licences may be granted on the grounds of public interest, while in some others (e.g., Algeria, Malawi, Nigeria, Zimbabwe) the law provides for the endorsement of a patent for licences of right. Provisions also exist in a number of African countries for the use of patented inventions by the Government for the services of the State, or in the public interest. However, the Egyptian

legislation provides for an expropriation of a patent by the State on the grounds of public interest or national defence, while in Zaire, use by Government or for the public interest may be conclusive. Future trends in the area of the protection of intellectual property rights in Africa will most likely follow the evolution of legal changes, as reflected in the agreement on trade-related intellectual property rights contained in the Final Act of the Uruguay Round of Multilateral Trade Negotiations.

4. Fiscal incentives and other promotion measures

23. A major thrust of the FDI policies of the 1980s was the provision of fiscal incentives to foreign investors. This applied practically across the whole region with respect to corporation taxes and import and export duties. A specific concession on the rate of the corporation tax for periods of, in most countries, up to 5 or even 10 years is widely available. In some cases, incentives are negotiable. In the United Republic of Tanzania, the Investment Promotion Act of 1990 provides for foreign investors to negotiate tax concessions individually with the Investment Promotion Centre. In Zaire, under the Investments Ordinance of 1986, concessions on very large investments are negotiated separately with the Government.

24. It is in the area of fiscal concessions that different priorities concerning FDI in African countries become most discernible. Eligibility for tax and duty concessions is usually determined by the degree of priority that a particular Government attaches to the type of investment or the industry in which it will be made. These priorities differ in the region. For example, Egypt provides a tax holiday of up to 15 years for projects deemed to be in the public interest, such as low-cost housing. Senegal and Côte d'Ivoire put particular emphasis on small- and medium-sized enterprises. Guinea and Kenya give special incentives to those who invest in the lesser developed regions. Lesotho encourages labour intensive manufacturing, while Guinea provides incentives to TNCs that make use of and develop local resources. In most countries, export industries almost invariably fall into the priority categories. Agro-processing is also a common priority sector under the investment laws of many African countries. 4/

25. Besides tax and duty concessions, many African countries have tried to attract TNCs through generous incentives given to foreign affiliates established in export-processing zones. Incentives often include exemptions from import and excise duties as well as from income tax; free repatriation of capital and profits; investment and export finance at preferential rates; serviced industrial estates; favourable labour legislation; and guarantees against nationalization.

26. Mauritius and Tunisia are perhaps the best examples of African countries that have successfully established export-processing zones. 5/ The zones established in other countries such as Botswana, Cameroon, Egypt, Ghana, Kenya, Liberia, Madagascar, Morocco, Senegal, Togo and Zaire have had rather limited success. For example, in the case of Senegal - in spite of a very attractive package of fiscal incentives (including, in 1974, total exemption from import duties), all sorts of tax exemptions and the establishment of an efficient

infrastructure - only seven firms were in operation there by 1985. This and the experiences of a number of other African countries suggest that factors other than those operating within export-processing zones themselves can limit their incentive effects. Notwithstanding their limited success so far, such zones remain a popular policy option. Benin, Comoros, Eritrea, Malawi, Namibia, Nigeria, Rwanda and Zimbabwe are in the process of establishing such zones or are studying the possibility of doing so.

27. While most African countries continue to offer tax and other fiscal incentives to foreign investors as a way of attracting FDI, some have begun to re-examine their policies on incentives. The findings of a number of studies have shown that fiscal incentives provided in investment codes are on their own not enough to attract FDI if the general regulatory framework governing investors (such as company laws, banking and insurance laws and contract laws) - let alone the other factors determining FDI 6/ - is not conducive to doing business. There is a general trend in Africa, therefore, to re-examine the whole business-related regulatory framework so as to offer an investment climate that is all-encompassing. This is the case in Guinea, Malawi, Seychelles and Zambia, for example.

28. As part of the re-examination process of the fiscal incentives policies, an issue that is increasingly coming under scrutiny is the preferential treatment for foreign investors. Recent laws providing tax concessions and other fiscal incentives tend to put investment opportunities for both domestic and foreign enterprises on a similar footing. For example, in Congo, Guinea, Malawi and Zambia, the nationality of the firm is no longer a determinant of taking part in privileged fiscal incentives. 7/

29. Just as a number of African countries started reviewing their fiscal concessions, many also have adopted laws that give priority to increasing investor confidence. In particular, FDI codes are increasingly addressing issues related to security of title and, in most instances, provide for international arbitration as a form of dispute settlement.

B. The international regulatory framework

30. As part of their policy to improve their investment climate and attract FDI, many African countries have concluded bilateral investment protection treaties with capital exporting countries. By 1 January 1993, over 130 bilateral investment treaties had been signed by countries in the region. The overwhelming number of those treaties were with developed countries (table 1). Bilateral investment treaties typically prescribe general standards of treatment, including fair and equitable treatment, as well as national and most-favoured-nation treatment. In addition, they contain clauses dealing with specific aspects of investment relations such as the transfer of payments and the repatriation of capital and profits, losses due to armed conflict or international disorder, nationalization and expropriation and settlement of disputes. In addition, a number of African countries have concluded bilateral treaties for the avoidance of double taxation of income and capital. Members of the CFA zone have an automatic double taxation agreement with France.

Table 1. Bilateral investment treaties signed by African countries, 1 January 1993

Host country	Number on bilateral treaties					Investor country
	1960s	1970s	1980s	1990s	Total	
Cameroon	3		4		7	Belgium-Luxembourg, Germany, Netherlands, Romania, Switzerland, United Kingdom, United States
Cape Verde				1	1	Austria
Congo	3		1	1	5	France, Germany, Switzerland, United Kingdom, United States
Côte d'Ivoire	6				6	Denmark, Germany, Italy, Netherlands, Sweden, Switzerland
Egypt		13	3	1	17	Finland, France, Germany, Greece, Italy, Japan, Morocco, Netherlands, Romania, Sudan, Sweden, Switzerland, United Kingdom, United States, Yugoslavia, Ukraine
Ethiopia	1				1	Germany
Gabon	2	4			6	France, Germany, Italy, Morocco, Romania, Sweden
Ghana	1		4	1	6	China, Germany, Netherlands, Romania, Switzerland, United Kingdom
Kenya	1	1			2	Germany, Netherlands
Lesotho			2		2	Germany, United Kingdom
Liberia	2	1	1		4	Belgium-Luxembourg, France, Germany, Switzerland
Madagascar	5				5	Denmark, Germany, Norway, Switzerland, Sweden
Malawi	1				1	Denmark
Mali		2			2	Germany, Switzerland
Mauritania		1	2		3	Germany, France, United Kingdom
Morocco	2	4	7	4	17	Belgium-Luxembourg, Egypt, Gabon, Germany, France, Iraq, Italy, Kuwait, Netherlands, Romania, Portugal, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom, United States
Niger	1				1	Germany
Nigeria	2			3	5	France, Germany, Netherlands, Switzerland, United Kingdom
Rwanda	2		1		3	Belgium-Luxembourg, Germany, Switzerland
Senegal	3	2	3		8	France, Germany, Netherlands, Romania, Sweden, Switzerland, United Kingdom, United States
Sierra Leone	1		1		2	Germany, United Kingdom
Somalia			1		1	Germany

Host country	Number on bilateral treaties					Investor country
	1960s	1970s	1980s	1990s	Total	
Sudan	1	5			6	Egypt, France, Germany, Netherlands, Romania, Switzerland,
Swaziland				1	1	Germany
Tunisia	5	2	3	1	11	Belgium-Luxembourg, France, Germany, Italy, Kuwait, Netherlands, Republic of Korea, Sweden, United Kingdom, United States
Uganda	1	2			3	Germany, Netherlands, Switzerland
United Republic of Tanzania	2	1			3	Germany, Netherlands, Switzerland
Zaire	1	3	1		5	Belgium-Luxembourg, France, Germany, Switzerland, United States
Zambia	1				1	Germany
Total	47	41	34	13	135	

Source: UNCTAD Programme on Transnational Corporations, World Investment Report 1993 (United Nations publication Sales No. E.93.II.A.14); UNCTC and ICC, Bilateral Investment Treaties 1959-1991 (United Nations publication, Sales No. E.92.II.A.1[illegible]).

31. Bilateral treaties have been supplemented by multilateral treaties. Two particular important conventions (table 2) that are widely accepted in Africa are the International Convention on the Settlement of Investment Disputes between States and Nationals of other States (which provides a system for the resolution of investment disputes) and the Convention Establishing the Multilateral Investment Guarantee Agency (which guarantees foreign investors insurance coverage against such non-commercial risks as nationalization and losses owing to armed conflict or internal disorder). Adherence to the latter Convention is now regarded as a touchstone of Governments' willingness to cooperate actively with foreign investors, a fact seemingly recognized by an increasing number of African countries. Thus, by 1 January 1994, 33 African countries were full members of MIGA and 7 were in the process of becoming full members.

32. The majority of Governments in Africa have participated in the key forums for resolving investment disputes and for insuring investors against the risk of operating in unstable environments. The International Centre for Settlement of Investment Disputes (ICSID) has been one of the key centres for arbitrating investment disputes since its establishment in 1965. By 1 January 1994, 41 African countries were full members of ICSID, and a further 3 had signed the Convention, but their membership had not yet entered into force. Of the 44, 32 joined between 1965 and 1970.

33. Two other important conventions that have also had a reasonably wide level of acceptance are the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the Paris Convention for the Protection of Industrial Property. The New York Convention adds a significant measure of reliability and protection in investment operations. The settlement of claims and disputes arising in foreign investment operations can become ineffective or unrealized if the relevant host or home countries refuse to recognize or enforce a claim, or if disparities in domestic conflict-of-law rules lead to the same result. By setting out rules for avoiding or minimizing such difficulties, the New York Convention has contributed to an improvement of the investment climate for FDI. As of 1 January 1994, 20 African countries had ratified the Convention (table 2). The Convention on the Protection of Industrial Property, which provides protection for patents and other intellectual property rights across national borders, is particularly significant for TNCs operating in high-technology areas since the technological assets they own typically constitute important firm-specific advantages. As of 1 January 1994, 37 African countries were parties to the Convention (table 2).

34. Although there are gaps in the participation by Governments from Africa in multilateral treaties, the extent of participation in international agreements relevant to flows of FDI suggests that the gaps that exist are not a key constraint on investment.

Table 2. African countries signatories of four major multilateral investment conventions, January 1994

Country	Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) (adopted in Washington on 11 October 1985)	Convention on the Settlement of Investment Disputes between States and Nationals of other States (adopted in Washington on 18 March 1965) a/	Convention on Recognition and Enforcement of Foreign Arbitral Awards (adopted in New York on 10 June 1958) b/	Convention for Protection of Industrial Property (adopted in Paris on 20 March 1883, last amended October 1979) c/
Algeria	--	--	1989	1966
Angola	Member d/	--	--	--
Benin	Signed e/	1966	1974	1967
Botswana	Member	1970	1971	--
Burkina Faso	Member	1966	1987	1963
Burundi	--	1969	--	1977
Cameroon	Member	1967	1988	1964
Cape Verde	Member	--	--	--
Central African Republic	--	1966	1962	1963
Chad	--	1966	--	1963
Comoros	--	1978	--	--
Congo	Member	1966	--	1963
Côte d'Ivoire	Member	1966	1991	1963
Egypt	Member	1972	1959	1951
Ethiopia	Member	1965	--	--
Equatorial Guinea	Ratified f/	1991	--	--
Gabon	--	1966	--	1964
Gambia	Member	1975	--	1992
Ghana	Member	1966	1968	1976
Guinea	Signed	1968	1991	1982
Guinea-Bissau	Signed	1991	--	1988
Kenya	Member	1967	--	1965
Lesotho	Member	1969	1989	1989
Liberia	--	1970	--	--
Libya	Member	--	--	1976

Country	Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) (adopted in Washington on 11 October 1985)	Convention on the Settlement of Investment Disputes between States and Nationals of other States (adopted in Washington on 18 March 1965) a/	Convention on Recognition and Enforcement of Foreign Arbitral Awards (adopted in New York on 10 June 1958) b/	Convention for Protection of Industrial Property (adopted in Paris on 20 March 1883, last amended October 1979) c/
Madagascar	Member	1966	1962	1963
Mali	Member	1978	--	1983
Malawi	Member	1966	--	--
Mauritania	Member	1966	--	1965
Mauritius	Member	1969	--	1976
Morocco	Member	1967	1959	1917
Namibia	Member	--	--	--
Niger	--	1966	1964	1964
Nigeria	Member	1966	1970	1963
Rwanda	Ratified	1979	--	1984
Senegal	Member	1967	--	1963
Seychelles	Signed	1978	--	--
Sierra Leone	Signed	1966	--	--
Somalia	--	1968	--	--
South Africa	--	--	1976	1947
Sudan	Member	1973	--	1984
Swaziland	Member	1971	1958	1991
Togo	Member	1967	--	1967
Tunisia	Member	1966	1967	1884
Uganda	Member	1966	1992	1965
United Republic of Tanzania	Member	1992	1964	1963
Zaire	Member	1970	--	1975
Zambia	Member	1970	--	1965
Zimbabwe	Member	1991	--	1980

(Source and footnotes on following page)

(Source and footnotes to table 2)

Source: UNCTAD Programme on Transnational Corporations, based on various sources.

a/ Year of signature.

b/ Year of ratification.

c/ Year in which State became party to the Convention.

d/ Effective membership, when subscription is paid.

e/ A representative of the country has signed the Convention.

f/ Record of membership, when the Convention is ratified by Parliament.

II. TRENDS IN FOREIGN DIRECT INVESTMENT IN AFRICA

A. Inflows

35. The total value of FDI flows to Africa nearly doubled from an annual average of $1.7 billion during 1981-1985 to an average of almost $3 billion during 1986-1990. In the early 1990s, flows to Africa remained at that level (table 3), in spite of a downturn in world-wide investment flows, but also in spite of a continued upturn in flows to the developing countries as a group.

36. The increase of flows to Africa in the second half of the 1980s did not give rise to much optimism concerning the prospects of FDI in this region, not only because they were concentrated in a few countries and stagnated in the early 1990s, but also because they were quite modest when compared to FDI flows to other regions of the developing world. As a result, average annual FDI flows to Africa as a proportion of these flows declined between the first and the second half of the 1980s from 13 per cent to 12 per cent (table 3). During the early 1990s, when inflows to Africa ceased to grow while those to other developing countries continued to do so, Africa's share declined further to the level of 7 per cent, thus underlining the marginalization of the continent in relation to FDI flows, apart from its marginalization in relation to international trade. 8/

37. Weak FDI flows to Africa and an almost total absence of portfolio equity investment flows during the early 1990s (when both types of these flows to other groups of developing countries were growing) distinguish Africa unfavourably from other regions in terms of the structure of external financial flows. In both Asia and Latin America and, as a result, in all developing countries as a group, FDI has risen to the largest component of net resources inflows; in fact, private capital flows have become larger for them, for the first time in a decade, than official flows. 9/ Africa, on the other hand, and especially sub-Saharan Africa, continues to rely on grants and official loans, which constitute the bulk of its resources inflows, while FDI - the only meaningful type of private flows to sub-Saharan Africa - accounts for some 12 per cent of the total. 10/

38. Investment flows to Africa as a whole were concentrated in, and therefore largely determined by, flows to the continent's nine oil-exporting countries. These alone accounted for over four fifths of the flows to Africa during the first half of the 1980s. Later, their share declined but remained at the high level of 70 per cent at the beginning of the 1990s. Within the group of oil-exporting countries, inflows are concentrated on Egypt and Nigeria, which together absorbed, depending on the year, between 36 per cent (in 1991) and 84 per cent (in 1981) of the total flows to Africa, or between, respectively, 53 per cent and over 90 per cent of those to the oil-exporting countries (table 3). If there is any trend within this group, it is towards a relative decline of the importance of these two countries, based on annual average flows, from 65 per cent in the first half of the 1980s to 41 per cent in the early 1990s. This decline was caused by a reduction of inflows to Egypt in the aftermath of the Gulf War by more than a half between the two periods, and a recovery of flows to Angola, Libya and Tunisia during the early 1990s (annex

Table 3. Inflows of foreign direct investment to Africa, 1981-1992

(billions of dollars and per cent)

Region/country	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	Total 1981-1992	Annual averages 1981-1985	1986-1990	1991-1992
All countries	57.6	43.2	43.5	50.1	53.5	80.5	133.4	157.8	195.0	205.3	161.6	151.9	1 333.4	49.6	154.3	156.8
Developing countries	15.1	14.3	10.4	12.1	13.5	13.9	23.9	27.8	27.4	31.7	39.4	46.8	276.3	13.1	24.9	43.1
Africa	1.6	1.4	1.2	1.4	2.8	1.8	2.5	2.8	4.9	2.3	2.7	3.0	28.4	1.7	2.9	2.9
Africa's share in (per cent):																
All countries	2.8	3.2	2.8	2.8	5.2	2.2	1.9	1.8	2.5	1.1	1.6	1.9	2.1	3.4	1.9	1.8
Developing countries	10.6	9.8	11.5	11.6	20.7	12.9	10.5	10.1	17.9	7.3	6.8	6.4	10.3	12.8	11.4	6.7
Oil-exporting countries of Africa, a/ b/ (million dollars)	1.1 c/	1.0	1.2	1.1	2.5	1.7	1.8	2.1	3.5	1.2 c/	1.8	2.2	21.2	1.4	2.1	2.0
(Egypt)	0.8	0.3	0.5	0.7	1.2	1.2	0.9	1.2	1.3	0.7	0.3	0.5	9.6	0.7	1.1	0.4
(Nigeria)	0.5	0.4	0.3	0.2	0.5	0.2	0.6	0.4	1.9	0.6	0.7	0.9	7.2	0.4	0.7	0.8
Other non-oil exporting Africa b/	0.4	0.4	0.02	0.3	0.3	0.2	0.7	0.7 d/	1.4 d/	1.0 d/	0.9	0.9	7.2	0.3	0.8	0.9
Share in Africa's total e/ (per cent):																
Oil-exporting countries	79.9 e/	70.6	98.4	81.0	89.8	91.6	72.3	74.9	72.0	54.4 c/	67.2	71.2	74.6	82.3	72.4	69.0
(Egypt)	48.6	30.4	40.9	51.2	42.2	67.1	37.8	42.9	25.6	32.2	9.4	15.1	33.8	41.2	37.9	13.8
(Nigeria)	35.2	30.1	28.8	14.0	17.1	9.2	24.0	13.6	38.5	25.8	26.4	29.6	25.4	23.5	24.1	27.6
Other countries	27.1	29.3	1.6	19.0	10.2	8.4	25.5	25.9	28.0	45.6	32.8	28.8	25.4	17.6	27.6	31.0

Source: UNCTAD Programme on Transnational Corporations, based on IMF tapes, December 1993.

(Footnotes on following page)

/...

(Footnotes to table 3)

---

a/ Algeria, Angola, Cameroon, Congo, Egypt, Gabon, Libya, Nigeria and Tunisia.

b/ Figures may not add up to Africa's total because of rounding.

c/ Africa's total is less than the total for Egypt and Nigeria because it includes disinvestment in other countries.

d/ Figures are inflated by unusually high investment in Liberia in 1988-1990 ($290, $656, $276 million, respectively), most likely in flags-of-convenience facilities. Inflows to "other Africa" net of Liberia were as follows: 1988 - $404 million; 1989 - $712 million; 1990 - $762 million.

e/ Percentages based on the figures before rounding.

table 1). However, as discussed below, not all - and in some cases not even the majority - of FDI in these countries is undertaken in the petroleum industry. While 1991 investment flows to Angola, which exceeded $600 million, went mostly to petroleum exploration and mining, 11/ the majority of those to Nigeria went, based on the number of approvals, to manufacturing (annually between 52 and 63 per cent of the number of projects during 1989-1991). 12/ While oil reserves in and by themselves can attract foreign investors, they may also help create conditions conducive to a diversification of FDI into other sectors and industries by, for example, securing a relatively stable foreign currency income that can be used as a guarantee for the free transfer of income on FDI - no doubt a strong incentive to foreign investors, especially under the conditions prevailing in Africa, where most countries struggle with balance-of-payments difficulties. As the recent example of Nigeria shows, however, the link between oil and such a guarantee does not have to be automatic. To improve access of the private sector, including foreign investors, to foreign currency, Nigeria liberalized its foreign exchange controls in early 1992 by, among other things, letting the local currency float and limiting the role of the Central Bank to open market operations. Facing, however, dwindling reserves soon after that, Nigeria reinstated the role of the Central Bank in early 1993 and tightened foreign exchange regulations. 13/

39. Investment flows to Africa are still so small in size that they are easily subject to year-to-year fluctuations in response to substantial changes in flows to a few countries. But the peak that FDI flows to Africa reached in 1989 - nearly $5 billion, or 18 per cent of total flows to developing countries - indicates that Africa benefitted at least to some degree from the worldwide FDI boom during the second half of the 1980s. However, 90 per cent of the $2.1 billion increase of Africa's total over the preceding year were concentrated on two countries, Nigeria and Liberia; flows to them registered in 1989 historic highs, not repeated after that year. The peak of the first half of the 1980s, which fell in 1985, was caused by a sudden one-year increase of flows to five oil-exporting countries (table 3).

40. The concentration of FDI in Africa on oil-exporting countries should not disguise the fact that some of the smaller non-oil exporting countries have attracted relatively significant and/or growing amounts of FDI during the 1980s and early 1990s (Botswana, Côte d'Ivoire, Morocco, Namibia, Swaziland and Zambia fared particularly well during the 1980s and early 1990s, see table 4). The CFA zone did not reap significant advantages despite its favourable monetary arrangements: inward FDI fell from an average $345 million during 1981-1985 to $190 million during 1986-1990 and $34 million during 1991-1992, while investment in the non-oil-exporting countries as a group increased nearly three times (from $283 million in 1981-1985 to $790 million in 1986-1990). At the beginning of the 1990s, the latter remained at the level of $880 millions annually. Table 4 shows, in addition to the ranking of the largest host countries in Africa by the absolute size of FDI inflows, rankings by relative size of inflows (per capita and per unit of GDP) and by increases of inflows (between the second half of the 1980s and the early 1990s and during the 1980s).

41. The ranking of countries by the absolute size of inflows produces an expected outcome: during the early 1990s, five out of the six largest host

Table 4. The largest host countries to foreign-direct-investment inflows in Africa, various measures

(dollars and per cent)

Size of inflows a/ (millions of dollars)		Inflows per capita b/ (dollars)		Inflows per $1,000 of GDP c/ (dollars)		Increase in inflows early 1990s d/ f/ (percent)		Increase in inflows during 1980s e/ f/ (percent)	
Nigeria	804	Seychelles	301	Equatorial Guinea	207	Equatorial Guinea	791	Liberia	1 097
Angola	476	Equatorial Guinea	89	Seychelles	65	Senegal	643 g/	Mozambique	1 027
Morocco	372	Swaziland	60	Swaziland	64	Libya	638	Mauritius	639
Egypt	356	Namibia	57	Angola	61	Angola	582	Swaziland	618
Tunisia	252	Angola	52	Namibia	40	Mozambique	384	Zambia	489
Libya	155	Botswana	44	Sierra Leone	37	Morocco	290	Madagascar	382
Namibia	81	Libya	34	Gambia	33	Tunisia	241	Equatorial Guinea	218
Botswana	53	Tunisia	31	Nigeria	25	Ghana	141	Lesotho	204
Côte d'Ivoire	48	Mauritius	15	Tunisia	20	Gambia	134	Kenya	145
Swaziland	45	Morocco	15	Botswana	19	Algeria	71	Seychelles	111

Source: UNCTAD Programme on Transnational Corporations, based on annex table 1 and UNCTAD, Handbook of International Trade and Development Statistics 1992 (New York, United Nations, 1993).

a/ 1991-1992 annual average.

b/ 1991-1992 annual average by 1990 population.

c/ 1991-1992 annual average by 1990 GDP.

d/ Increase in annual average between 1986-1990 and 1991-1992.

e/ Increase in annual average between 1981-1985 and 1986-1990.

f/ Excluding countries with negative flows (disinvestment) in 1981-1985 or 1986-1990, i.e., that have a "minus" denominator.

g/ 1991 only in numerator.

countries were oil-exporting countries, led by Nigeria. The only exception in this group is Morocco, one of five or six African countries experiencing a continuous increase of flows during the three periods under consideration. Other measures produce a group of smaller non-oil exporting countries that have been able to attract FDI inflows in quantities that are large relative to the size of their populations or their economies, or which have distinguished

themselves by very rapid growth rates for a number of years. For example, $21 million of annual flows does not bring the Seychelles even close to the list of the largest host countries in absolute terms; but these flows represent $301 of flows per capita and $65 per $1,000 of GDP, which gives this country the lead, together with Equatorial Guinea, among the host countries ranked by relative importance of FDI.

42. A number of countries on the list of countries with increasing flows (Ghana, Senegal, Swaziland and Tunisia) experienced a serious decline during the mid-1980s (leading to negative flows for Senegal and Swaziland). For them, the fast growth of inflows at the end of the 1980s and the beginning of 1990s is merely a revival of the lost dynamism of flows from the beginning of the 1980s. The case in point is Ghana: it is likely that FDI was strongly curtailed from $16 million annually a decade ago to $2 to 4 million in the mid-1980s in response to an investment climate that was perceived as negative, but subsequently revived as the country undertook efforts to improve it.

B. Non-equity investment and joint ventures

43. The influence of TNCs in Africa goes beyond (and sometimes considerably so) the equity investment captured in FDI data. Many TNCs are involved in the region through non-equity arrangements such as management agreements, technical assistance agreements, technology-transfer agreements or the licensing of technology. Evidence from larger African economies indicates that non-equity forms may play as important a role as equity forms. In Nigeria, for example, income from the former accounted for 40 per cent of the total investment income paid overseas in 1977-1986, 14/ a figure that is twice the OECD estimate for the developing world as a whole.

44. In the past, as discussed earlier, the incidence of non-equity (or sometimes low equity) investment reflected the preference of Governments of host countries for this type of investment. This was a preference that was not limited to African countries alone; for instance, some Asian economies (such as the Republic of Korea and Taiwan Province of China) actively sought this form of investment during the 1960s and 1970s as a means of accessing international technology without compromising national control of the corporate sector. In Africa, similar motivations partially explained the increased equity stakes that many Governments took, during the same decades, in the corporate sector through various forms of nationalization, indigenization programmes or mandatory joint ventures.

45. While TNCs usually do not share host countries' preference for non-equity arrangements or mandatory joint ventures - or, for that matter, for any imposed form of involvement - in certain situations (e.g., when investment risks are high), these forms suit their interests as well, because they enable them to earn income without risking capital. An example of the wide use of non-equity forms is tourism - and specifically the hotel industry - which is a new area of interest to FDI in Africa, next to mining, agriculture and the energy sector. As a recent study reported, "there has been a steady increase in the number of high class hotels built in sub-Saharan Africa in recent years. ... Active in the hotel business have been Sheraton, Hilton, Inter-Continental and the French

Accor chain, together with Hong Kong interests in Mauritius. However, the involvement of these companies has been mostly in the form of management contracts: new hotels constructed in Africa in the 1980s have tended not to have been built with equity from these or other individual equity sources". 15/ As FDI data do not reflect non-equity arrangements, they underestimate the size and scope of the activities of TNCs in Africa. This applies not only to the hotel industry, but also to other industries in which non-equity arrangements are a convenient form of doing business (e.g., fast food, car rental services, trading, petroleum-exploration services), or where they help to avoid or spread risk. An example of the latter is the British company Booker McConnel that expanded its sugar and poultry output in Kenya through local subcontractors without acquiring additional land. 16/

46. While the importance of mandatory joint ventures is decreasing with the liberalization of FDI policies and regulations, this does not mean that joint ventures will disappear altogether because, as mentioned earlier, they are also of interest to TNCs. In addition to the motivations already mentioned, joint ventures, for example, may be sought by TNCs operating in Africa as a form "enabling [them] to better understand the rules and regulations governing the society", 17/ as one TNC, H.J. Heinz, saw its joint venture with the Government of Zimbabwe. In some countries, "joint ventures in which governments have a stake are (still) considered less subject to adverse legislation". 18/ The incidence of joint ventures with parastatal companies may fall as the latter divest themselves of the shares in joint ventures as part of the privatization process. On the other hand, the availability of private joint venture partners or licensees is improving, 19/ and a growing number of joint ventures in the private sector may compensate for the divestiture of state companies.

C. Stock and sectoral distribution

47. Four investor countries dominate the FDI stock in Africa (table 5): the United Kingdom of Great Britain and Northern Ireland, the United States of America, France and Japan. Together, they hold approximately three quarters of the total FDI stock in Africa, estimated at some $21 billion in 1991 (or 1.6 per cent of the total world stock). The Japanese total, however, is inflated by flags-of-convenience investment in shipping in Liberia.

48. Systematic information on the breakdown of FDI by sector for Africa as a whole is not available. Estimates for sub-Saharan Africa for 1982 put the share of the primary sector in the total stock of FDI at 55 per cent, and that of the secondary and tertiary sectors at, respectively, 28 and 20 per cent. 20/ The important role of the primary sector continued until recently, as confirmed by the sectoral composition of FDI stock in Africa of the six largest home countries (table 6). With the exception of Japan and the United Kingdom, the primary sector is the largest sector in the stock of France, the United States, the Netherlands and Germany. As already mentioned, Japan's stock is dominated by investment in flags of convenience in Liberia; beyond that, Japanese investment in Africa is minimal. And the stock of the United Kingdom evolved recently towards an increasing share of the primary sector, which accounted for 57 per cent of flows during the period 1988-1991.

Table 5. Stock of foreign direct investment in Africa, by home country, most recent year

(millions of dollars and per cent)

Home country	Year	Amount
Japan	1992	6 813 a/
United Kingdom	1991	3 461
United States	1992	3 518
France	1990	2 658
Subtotal		16 450
Germany	1992	948
South Africa	1986	917
Switzerland	1989	739
Netherlands	1989	699
Italy	1989	440
Canada	1990	146
Spain	1989	74
Denmark	1990	42
Portugal	1988	35
Norway	1988	21
Total, above		20 511 b/

Source: UNCTAD Programme on Transnational Corporations, based on United Nations, Transnational Corporations and Management Division, World Investment Directory, vol. III, Developed Countries (United Nations publication, Sales No. E.93.II.A.9); UNCTAD Programme on Transnational Corporations, foreign-direct-investment database.

a/ Liberia accounts for 85 per cent ($5.8 billion) of this investment which is entirely related to flags of convenience.

b/ $14,738 billion, net of Japanese FDI in Liberia.

Table 6. Sectoral distribution of the stock of foreign direct investment in Africa, by largest home country, most recent year

(percent)

Sector	France 1989	Germany a/ 1990	Japan 1992	Netherlands 1989	United Kingdom 1987	United Kingdom 1988-1991 b/	United States 1991
Primary	87	42	11	68	30	57	61 c/
Secondary	3	20	3	22	40	24	20
Tertiary	10	16	86	10	30	10 d/	15
Total	100	100	100	100	100	100	100

Source: UNCTAD Programme on Transnational Corporations, based on United Nations, Transnational Corporations and Management Division, World Investment Directory, vol. III. Developed Countries (United Nations publication, Sales No. E.93.II.A.9), and national sources.

a/ Data do not add up to the total because of unallocated industries not included elsewhere in the table.

b/ Flows.

c/ Petroleum only.

d/ Financial services only.

49. A comparison of the composition of FDI stock in Africa with that in developing countries as a whole shows that the primary sector is by far a much more important recipient of FDI in the former than in the latter. 21/ The services sector, on the other hand, received very little FDI, if compared with other developing or the developed countries. This is consistent with the pattern shown in table 3 in which investment in oil-exporting countries dominates inward FDI flows to the continent.

50. As mentioned earlier, however, not all investment in the oil-exporting countries is necessarily undertaken in the oil industry or even the primary sector. The data in table 7 shed some light on this issue, including for the two largest host countries. The stock data show that the primary sector dominated, during the early 1980s, FDI in Egypt and Gabon, accounting, respectively, for 87 and 70 per cent of their stock of FDI, but not in Congo and Nigeria, where its share was only above 20 per cent. Flow data show that close to 60 per cent of flows in the late 1980s went to the petroleum industry in the case of Tunisia. At the same time, the primary sector was not the largest sector in Egypt; this corresponds to the descriptive information that, at that time, Egypt was also successful in attracting substantial amounts of FDI to, among other things, its tourism industry. Nigeria, too, a major petroleum-exporting country, shows a rather diversified composition of flows by sector and

Table 7. Share of the primary sector in the total inward foreign-direct-investment stock and flows, selected host countries, 1980s

(percent)

Country	Year	Share
A. Stock		
Botswana	1989	88
Congo	1982	21
Côte d'Ivoire	1982	19
Cameroon	1986	6
Egypt	1982	87
Gabon	1982	70
Liberia	1982	72
	1980	6
Morocco	1985	9
	1988	9
Malawi	1982	55
	1980	22
Nigeria	1985	13
	1988	31
Zimbabwe	1981	32
B. Inflows		
Egypt	1986	4
	1988	3
Ghana	1986-1989	19
Kenya	1982-1985	5
Mauritius	1988	1
Morocco	1985-1988	10
Nigeria	1980-1985	9
	1985-1990	44
Tunisia	1986-1989	56 a/
Zambia	1980-1983	46

Source: UNCTAD Programme on Transnational Corporations, based on UNCTAD Programme on Transnational Corporations, World Investment Directory, vol. V, Africa and West Asia (Geneva, United Nations, forthcoming).

a/ Refers to petroleum only.

industry during the 1980s (table 8). Thus, as far as sectoral composition is concerned, the picture is quite differentiated.

Table 8. Nigeria: sectoral composition of investment inflows, 1980-1990

(per cent)

Sector	1980-1985	1986-1990	1980-1990
Primary	9	51	20
Secondary	24	47	30
Tertiary	62	2	47
Unallocated	5	-	0-113

Source: UNCTAD, "Case study submitted by Nigeria" (TD/B/WG.1/Misc. 3/Add.9), Ad Hoc Working Group on Investment and Financial Flows, Geneva, 10 January 1994, vol.I, p. 36.

III. EXPLAINING TRENDS

51. Foreign direct investment is welcomed and, in fact, actively sought by all African countries, and FDI policies have been liberalized accordingly. Yet, in clear distinction to other regions of the developing world, TNCs have responded only cautiously because, in the world market for FDI, Africa as a whole does not compare favourably as regards a number of basic determinants of FDI. In addition, a number of factors that favoured an increase of FDI to other developing countries, such as privatization programmes and debt-equity swaps, play only a limited role in Africa.

A. General determinants

52. An explanation of FDI in Africa would not be complete without at least briefly reviewing the basic factors that influence the investment climate in Africa for both domestic and foreign investors and make Africa less attractive than other developing countries. The list of these factors includes:

(a) Continuing civil conflicts and political crises, natural disasters (especially drought) and adverse consequences of the recession in developed countries that obviously are not conducive to investment. The group of countries affected by these circumstances is quite large. At least five countries remain mired in conflicts: Angola, Liberia, Rwanda, Somalia and Sudan. Another group of countries is emerging from prolonged periods of conflict: Chad, Eritrea, Ethiopia, Mozambique and Uganda. Countries recently affected by drought include Algeria, Libya, Morocco, Tunisia and Zimbabwe. Last

but not least, strikes and protests against unpaid wages and stipends or against economic policies were organized in 1992 in about a dozen countries. 22/ Most of the countries afflicted by wars as well as social or political conflict have received virtually no new FDI or have experienced prolonged periods of disinvestment. Notable exceptions include Angola and Mozambique which were able to attract quite considerable FDI inflows during 1991-1992.

(b) Markets that are typically relatively small. Most African economies in sub-Saharan Africa have an average GDP of $3.5 billion (or $340 per capita), and the north African economies have an average GDP of $25 billion (or $1,120 per capita). 22/ Attempts to address this problem through regional integration have either collapsed or proved ineffective in terms of affecting intra-regional trade and creating larger economic areas.

(c) Growth that is lower than in other developing countries or even declining and which, in any event, is often too low to assure GDP-per-capita growth: 1990 - 3 per cent; 1991 - 2.3 per cent; and 1992 - 1.5 per cent. 23/ The lack of dynamism prolongs the problem of the smallness of markets.

(d) Poor and in many cases deteriorating physical infrastructure, especially telecommunication and transportation, and the lack of capital to improve it. Added to that are often inadequate institutional and especially financial infrastructures, such as banking and financial institutions.

(e) The high level of indebtedness that continues to make the debt of many African countries difficult to manage. The debt problem is aggravated by balance-of-payments difficulties caused in particular by the sharp decline of commodity prices. Therefore, a number of African countries suffer chronically from foreign exchange shortages. This makes it very difficult to guarantee that FDI income can be transferred - a key aspect of a favourable investment climate.

(f) Slow progress in a number of countries in introducing market- and private-sector-oriented economic reforms undertaken within the framework of structural adjustment programmes, for both objective and subjective reasons.

(g) Lack or low level of skills and general technological capabilities. Added to that are relatively high production costs. By the mid-1980s, costs of production in sub-Saharan Africa were frequently as much as double those in low-income Asia. A 1989 World Bank study found that, for example, the cost of rail transport was 2.8 times higher and wages of unskilled workers in the construction sector 1.4 times higher in sub-Saharan Africa. 24/ Since productivity levels in Africa were generally lower than in low-income Asia, relative production costs further weakened the attractiveness of Africa as an investment location.

53. In clear distinction from a sizeable group of countries afflicted by a few or several of these adverse factors stands a small group of countries that has done well in terms of attracting FDI flows (table 4). While oil and other natural resources have been a factor in attracting FDI to a few of these countries (e.g., Angola, Namibia and recently Equatorial Guinea), many others - in addition to having the fundamental factors right - have been able to use specific locational and other advantages to boost their attractiveness. For

example, Lesotho and Swaziland benefited particularly from their special status as members of a common monetary area, with the potential as a base for exporting both to the region (as members of the Preferential Trade Area) and the European Union (as signatories to the Lomé Convention). Mauritius has particularly benefited from FDI by firms based in Hong Kong seeking to develop exports to Europe and elsewhere. Capitalizing on its success, the island is seeking foreign investors in banking and finance, with a view towards becoming an offshore financial centre and to diversify the sources of its FDI inflows. Morocco and the Seychelles benefited from very large investments in the tourism industry. Morocco has been trying to make the most of its economic achievements, cheap labour and closeness to Europe by establishing a low-cost manufacturing base for exports to the European Union. 25/ Kenya - among the top 10 in the growth list during the 1980s - derived significant benefit from a high level of reinvestment of corporate earnings at a time when foreign exchange controls were a constraint on the transfer of dividends and management fees. Botswana is an example - not frequent among African countries with similar characteristics - of a country that over the years has been successful in using FDI for the development of its natural resources and its transformation from a low-income country into a middle-income one. 26/ These country-specific factors most likely have been more important in attracting FDI - especially during the 1980s - than fiscal and legislative reforms, since, of these countries, only two (Lesotho and Mauritius) had introduced specific incentive regimes by 1989.

54. The success of these countries demonstrates that it is wrong to assume that Africa as a whole is an inhospitable location for FDI. Rather, differentiating analyses are required to determine the specific locational advantages that individual countries have and that can become the basis for a mutually beneficial relationship between TNCs willing to explore investment opportunities and Governments prepared to do whatever is in their power to create a favourable investment climate.

B. Structural adjustment programmes and foreign direct investment

55. Structural adjustment programmes have become central to economic policy in most African countries in the course of the 1980s and early 1990s. These programmes have typically involved massive devaluations, the removal of import quotas, significant reductions in tariffs, the introduction of positive real interest rates, the freeing of agricultural and energy prices, the privatization of publicly held assets and the establishment of a more favourable regime for FDI. The liberalization of capital markets has also often been a part of the package.

56. The impact of these programmes on TNCs already operating in Africa and on the inflow of new FDI has been mixed. In the short run, many existing foreign affiliates in import-substituting industries, exposed suddenly to import competition after years of enjoying benefits of protection, may have been affected negatively. Examples include the automobile-assembly industry and the textile industry which in some countries were entirely oriented towards domestic markets protected by high tariffs. Following tariff reductions carried out in the context of structural adjustment programmes, these markets have frequently

been subject to a surge of imports which have undercut existing producers, both foreign and domestic. Thus, for example, the automobile industry in Kenya, the textile industry in Nigeria and the food-processing industry in Zambia each constitute cases in which foreign affiliates have been operating since 1990 or before at levels of 20 per cent of capacity or below. Overall, as a result of these and other processes, employment in manufacturing industries during 1990-1993 in these and other countries has fallen by as much as a third. Another adverse short-term consequence of adjustment programmes for TNCs includes the reduction, sometimes quite large, of the book value of their assets held in Africa, expressed in hard currencies, as a result of devaluations. On the other hand, devaluations benefit TNCs in export industries, because of the improved relationship between local costs and the value of export earnings. Furthermore, the introduction of export-retention accounts has made it easier for foreign affiliates to obtain foreign exchange for the payment of dividends and other transfers.

57. In the long run, however, TNCs, including those already located in Africa as well as new ones, stand to benefit from structural adjustment programmes. An important aspect of the rationale behind these programmes has been that their implementation will also benefit the host economies by supplementing domestic efforts with new, much needed capital, technology, skills, access to foreign markets and/or eased foreign currency pressures. One of the expectations related to the implementation of these programmes is that they will, in the long run, make import-substituting industries more efficient and hence more able to compete in regional and international markets. Foreign affiliates play an important role in this regard: even though they may suffer short-term losses, as all firms in these industries would tend to do, they are much better positioned than domestic firms to rationalize their operations and become internationally competitive. The example of the automobile industry in Latin America indicates that foreign affiliates in developing countries are indeed capable of fundamentally restructuring their operations when affected by severe domestic economic crises. 27/ This corporate adjustment process is further facilitated by a reorientation of corporate strategies towards regionally or globally integrated production systems. 28/

58. So far, the reaction of TNCs to structural adjustment programmes has varied, typically according to sector. In the mining sector, various incentives, such as export-retention schemes, have primarily been of benefit to Africa's traditional investors in mineral development which were also active investors during the pre-structural adjustment period. But they have attracted some small mining companies that are newcomers to Africa. However, the new approach has attracted only a modest number of investors in agri-business, partly because of pricing uncertainties in both local and international markets. And it has yet to succeed in attracting significant investment into manufacturing (such as textiles for export) and services with a small number of exceptions (such as Lesotho and Morocco), the response by foreign investors to new incentive schemes in these sectors has been rather modest.

59. One of the reasons for caution is perhaps that, in the course of the implementation of the programmes, the embryonic manufacturing sectors in many African countries have come under considerable stress. The International Finance Corporation, one of whose main tasks is to find viable commercial

projects to be co-financed with TNCs, describes the investment climate in Africa in its 1992 Annual Report in the following manner: "Most countries are still struggling with problems that are hampering economic development, including unsustainable internal and external imbalances, heavy debt burdens, and weak financial and physical infrastructures ... . In the light of these problems the climate for private investment remains difficult. Moreover, increased private sector investment will come only after the economic adjustment begins to bear fruit." 29/

60. The fact that most national structural adjustment programmes have not yet borne fruit in terms of increases in real income per head has also led a number of Governments to pursue these programmes only on a selective basis. This hesitation, in turn, feeds back into the attitudes of potential investors, including foreign investors, towards a substantial engagement in Africa. Therefore, it is unlikely that a development push will come from the private sector, domestic or foreign. As The Economist noted, "the nature of the difficulties is such that the initiative to start development moving in Africa rests with governments, domestic and foreign. ... The rich countries, and the multinational institutions they control, need to be bolder in rewarding eager reformers with debt forgiveness, grants and technical expertise". 30/ One should add that the rewards, ultimately, could also include increased flows of foreign investment.

C. The role of debt-equity swaps, privatization programmes and portfolio investment

61. One of the reasons why Africa has lagged behind the other developing country regions in terms of attracting FDI inflows is that it has largely lacked what was a driving force of FDI flows in a number of these other countries in recent years, namely, debt-equity swaps and FDI linked to privatizations. Both instruments subsidize, to a certain extent, FDI. In addition, Africa has also largely missed out on other types of private investment flows, especially portfolio equity flows, which have accompanied FDI flows to a number of developing countries in Latin America and South-East Asia. The latter countries have been able to exploit a number of direct and indirect links between privatization, FDI, debt-equity swaps and portfolio investment, and thus managed to lessen their debt burden and to attract rapidly increasing flows of private capital, including especially FDI and portfolio equity flows.

62. Latin American countries have made the widest use of privatization programmes (table 9) and debt-equity conversions as vehicles to attract FDI. As a result, both sources contributed about one third (over 15 per cent each) to FDI flows during the period 1988-1992. 31/ Furthermore, during 1989-1993, the region attracted $23 billion (or 53 per cent of the developing country total) of gross equity portfolio flows, because it relied heavily on the stock market and foreign capital in the privatization of, among other things, large telecommunication companies. 32/ Privatization as a means to attract FDI has also been widely used by the countries of Central and Eastern Europe, accounting for 43 per cent of their FDI flows during 1988-1992, while the countries of South-East Asia relied more on their stock markets for privatizations as well as foreign capital, attracting $16 billion of portfolio equity flows. 33/

63. None of these processes occurred in Africa on a scale sufficient enough to affect FDI flows. Debt-equity swaps have been very limited in value and have taken place mainly in countries such as Nigeria where a high proportion of total debt was commercial rather than multilateral. The total value of all debt-conversion deals in Africa between 1984 and 1992 was $820 million. 34/ The bulk of this reduction was achieved by a simple sale of the debt at a heavy discount which accordingly reduced the borrowing country's liability. Figures are not available on the proportion of this total swapped for equity as opposed to other purposes. But even if the entire total would have been swapped for equity and if foreign investors would have been the only participants in these swaps, they would have increased FDI flows to Africa in the same period by 3 per cent only.

64. African countries have been more active in the area of the privatization of government-owned assets which, increasingly, have included many parastatal companies. During the period from 1980 to 1987, Africa even led the list of regions with the strongest privatization efforts, measured by the number of transactions, accounting for 210 out of a total of 456 cases in all developing and Central and Eastern European countries. 35/ The vast majority of these were, however, small-scale privatizations with very low absolute assets values. During 1988-1992, revenues of African countries from privatizations amounted to some $350 million - a negligible amount, if compared to the $62 billion for the developing world as a whole (see also E/C.10/1994/2). Furthermore, with the exception of some large export-oriented mining companies, such as Zambia Consolidated Copper Mines, privatization programmes have proved to be of modest interest to TNCs. Besides, privatized assets were not always made available to foreign investors: sometimes they were returned without cost to their former owners (as with the Ugandan sugar industry). More frequently, their sale was often limited to the domestic private sector, including to existing management teams. Given these considerations, the role of privatization programmes in FDI inflows in Africa was insignificant, accounting for at best around 1 per cent of inflows during 1988-1992 (table 9).

65. Despite the fact that a number of African countries have had stock markets for quite a long time, they have not been able to attract significant foreign portfolio investment, and especially equity portfolio investment, because these markets have been considered too volatile or too small. Therefore, the amount of this investment, $369 million during 1989-1993, is very small by all standards, be it compared to the total for all developing countries ($41 billion), or to FDI flows to Africa during that period ($17 billion).

66. Some of these weaknesses can, however, be converted into strengths in case of a number of countries that have just begun substantial privatization programmes and targeted foreign investors as major participants and/or have sought to use stock markets to attract foreign investors. Countries that have expanded their privatization programmes include Egypt, Morocco and Tunisia. Morocco's programme involves the sale of 112 companies from all sectors -

Table 9. Foreign-direct-investment inflows from privatization transactions: Africa and other regions, 1988-1992

(Millions of dollars and percentage share of total FDI inflows)

Region	1988	1989	1990	1991	1992	1988-1992
Africa						
Sub-Saharan Africa						
Value	-	13.8	38.1	2.6	44.0	98.5
Share	-	0.6	5.7	0.2	3.4	1.4
North Africa						
Value	-	1.0	-	3.2	22.5	26.7
Share	-	0.1	-	0.5	1.1	0.4
Latin America and Caribbean						
Value	213.7	157.3	2 136.3	3 299.9	2 311.8	8 119.0
Share	2.7	2.2	27.7	25.9	16.8	16.4
Asia						
East Asia & Pacific						
Value	-	-	-	75.0	301.7	376.6
Share	-	-	-	0.6	1.9	0.7
South Asia						
Value	-	0.1	10.6	4.2	37.0	51.9
Share	-	0.04	3.6	1.2	8.8	3.4
Central and Eastern Europe						
Value	-	422	489	1 917	2 411	5 238
Share	-	39	39	51	41	43

Source: F. Sader, "Privatization and foreign investment in the developing world, 1988-1992" (Washington, D.C., The World Bank, 1993), Working Paper 1202, and additional information from the author.

including mining companies, banks, hotels and textile factories - and is expected to raise about $2.2 billion; foreign participation in this programme is encouraged. 36/ If other countries with large privatization programmes follow Morocco's example (e.g., Nigeria), they may be able to attract noteworthy flows of FDI. Efforts of host countries in this regard can be supported by home countries. Thus, for instance, it is partly to foster such inflows that the Commonwealth Development Corporation of the United Kingdom has recently launched an investment fund targeted at privatisation issues in Commonwealth countries; the fund will be managed by a merchant bank. 37/

67. As regards stock markets, which may serve as a conduit for FDI, countries with such markets have sought to deepen them by increasing the number of listed companies (e.g., Botswana, Kenya) or giving more rights to foreign investors (e.g., Zimbabwe), or both. Other countries are only establishing their markets for the first time (e.g., Malawi, Tanzania, Uganda and Zambia). Even though most African markets are still shallow, illiquid and small, if these countries make progress in stabilizing their economies, they will put themselves into a position to attract growing amounts of capital. For example, the Zimbabwe Stock

Exchange attracted about $12 million from offshore sources between July and December 1993, causing the industrial index to more than double. 18/

68. When assessing the impact of privatization programmes and debt-equity swaps on FDI flows, it has to be kept in mind that they are, to a certain extent, one-off factors that can influence FDI flows within certain limits defined in every country by the pool of private debt to be converted and that of companies to be privatized. Nevertheless, as the evidence from other countries, especially in Latin America, shows, the impact can extend beyond the direct purchase of privatized companies by foreign investors; as one study suggested, one dollar in privatization revenue generates an additional 38 cents in new FDI inflows, and a 1 per cent increase in foreign participation adds another 50 cents. 19/ It also appears that privatizations in the financial sector and in infrastructure have especially strong effects on foreign investors. More generally, if privatizations, an upgrading of the stock market and debt conversions are all part of a policy that improves "the general economic environment such that it appears more profitable for foreign investors to engage in ventures in these countries", 19/ regular (not only subsidized FDI) is likely to be attracted, so that investment inflows continue to grow or are maintained at a high level.

IV. IMPACT OF FOREIGN DIRECT INVESTMENT ON THE ECONOMY

69. The impact of FDI and TNCs on a country depends on many factors, such as the role of TNCs in the economy, the sector in which FDI is undertaken, the type of investment (e.g., export-oriented or import-substituting), links of foreign affiliates with the host economy and, last but not least, on the conditions in the host economies. Countries, and especially developing countries, are interested in specific impacts which may, however, change over time and vary from country to country. African countries, as many other countries, have gone through a long and drastic evolution in this respect: from seeing TNCs as part of the problem (to be solved by minimizing the role of TNCs), they are now considering them as part of the solution and hence are competing with other countries to attract them. In fact, the expectations of some countries may be too high as to the role that FDI can play in promoting economic growth. Some may be disappointed because TNCs do not invest in their economies in spite of extensive regulatory reforms or exert an impact that is not perceived to be positive. Others narrow their expectations to quick financial effects (regarding resource flows or the balance of payments) and do not appreciate qualitative, indirect contributions to, for example, technology or skill development. Inadequate statistical data on FDI and the performance of TNCs in Africa make it very difficult to assess their overall and specific impacts on national economies. What exists - a fragmented literature (for the most part not up to date) and some limited data on some aspects of FDI - allows only cautious conclusions about the scope and the direction of possible impacts in a number of areas.

A. Output and employment

70. The most aggregate impact of foreign affiliates on host countries is their contribution to output and job creation, measured by their share in GDP and

other economic aggregates (e.g., employment). Such measures are, however, difficult to come by because countries usually do not collect this type of data separately for foreign affiliates; whatever estimates exist result from special studies. The share of TNCs in the output of Nigeria before the indigenization decrees of 1972 and 1977 was estimated at 40 per cent, 40/ and in that of Kenya at 20 per cent in 1963. 41/ The importance of TNCs in African countries tended to decrease when many of them asserted national control over their economies, among other things, by limiting the role of FDI. In the case of Nigeria. the share of TNCs in output fell to 20 per cent by 1986. 42/ Data for Kenya based on employment in majority-owned foreign affiliates also show a decline to 7 per cent, or 80,000 out of 1.1 million employees in the formal sector. 43/ Even though these shares declined, they are not that low, measured by the standards of developing countries that receive significant amounts of FDI: for Hong Kong, a major host developing country, the share of foreign affiliates in the sales of the secondary sector in 1987 was 17 per cent, and for the Republic of Korea it was 22 per cent (1986). 44/ In smaller and some mid-sized African countries, the contribution of foreign affiliates to employment, production and investment is much higher, particularly with respect to manufacturing employment. In Mauritius, for example, they accounted for 65 per cent of overall employment in 1984; and in Ghana (1986) and Tunisia (1988), for around half of manufacturing employment. 45/ Figures on affiliates' share in production for countries such as Botswana, Gabon or Seychelles are also very high. Interestingly enough, TNCs play a relatively important role in a number of countries that have not received sizable FDI flows since several years or that even experienced disinvestment. A case in point has been Zimbabwe, which experienced net disinvestments of $54 million during 1980-1992; still, TNCs continue to play an important role, accounting for a quarter of the assets in manufacturing.

71. Annex table 1, in addition to serving as a basis for ranking host countries by the relative importance of FDI flows (see also table 4), also shows how this importance, based on annual averages in three periods, was changing relative to GDP between 1981 and 1992. Out of 49 countries for which data are available, only 8 countries experienced a consistent noticeable increase of these shares during these three periods. In two cases, the improvement was barely noticeable. More interesting is the comparison between 1986-1990 and 1991-1992 because, during the second half of the 1980s, structural adjustment programmes (which typically include a liberalization of FDI policies) were implemented in many countries and were expected to bring, among other things, increased FDI by early 1990s. The group of countries with increases in shares almost doubled, to 15; but in four or five of them, these increases were very small, namely in the range of one to two tenths of a percentage point.

72. The activities and, therefore, the impact of TNCs in most African countries are concentrated in few industries and sometimes even only in one industry where their quantitative role is then obviously much greater than their average in the economy as a whole. Clearly, in those countries in which FDI is concentrated in the development and export of natural resources, notably in the nine oil exporters, it has played and continues to play an important role in sharing high exploration and development costs, bringing know-how and technology and sustaining and expanding exports. The spillover benefits of this type of investment are usually minimal, although they need not be so. Links to the

local economy are few and they are sometimes restricted by the host country. 46/ Oil and mining companies use local labour, but most of their other inputs are imported and almost all of their output is exported. 47/ Benefits from this type of FDI for the rest of the economy largely depend on how Governments manage their relationship with TNCs and how they use (often fluctuating) revenues from FDI in the primary sector. As mentioned earlier, Botswana is an example of a country which, relying on FDI in the development and exports of its natural resources (mainly diamonds), advanced from the group of the world's poorest countries at its independence to the group of middle-income countries by 1990, a result achieved by relatively few countries. 48/

73. As was mentioned earlier, sometimes TNCs can play a key role without engaging large capital expenditures because they can rely on non-monetary assets. In Africa, this is certainly the case with trading TNCs that play a crucial role in supporting the export of primary commodities through joint ventures with local companies (e.g., bananas in Cameroon), by serving as buying agents on behalf of other firms (e.g., wood in Côte d'Ivoire), or by exporting on their own account (e.g., tea exports from Kenya). 49/ The trading function is important because a comparative advantage in producing a good does not necessarily imply a comparative advantage in marketing it. The relatively high skill requirement of international trading services suggests the possibility that some African countries may go through a period when they enjoy a comparative advantage in producing certain commodities but not marketing them. In such cases, the role of transnational trading companies can be a useful supplement to countries' exporting efforts. As examples of some developing countries in Asia show, this may change and, with time, countries may not only successfully produce but also successfully market their commodities. 50/

74. As to the sectoral dimension of the FDI impact, reference has already been made to domestic-market oriented, import-substituting type of investment in manufacturing, encouraged by trade protection and near monopoly positions. Its main contribution is to employment and the production of goods. Foreign affiliates in these industries co-exist with local companies, but in most cases they did not establish linkages with the local economy and relied on imported inputs for current production. Their qualitative impact on the economy was therefore very limited. Although they were meant to be a relief for the balance of payments, they were increasingly seen as a burden because of imported inputs and transferred investment income. 51/ As discussed earlier, these industries, including the foreign affiliates in them, were put under stress when import regimes were liberalized in the framework of structural adjustment programmes. It remains to be seen whether the potential of foreign affiliates to rationalize their operations - and the industries in which they operate - in the face of international competition will materialize.

75. Other types of investment (especially efficiency-seeking investment) have largely been absent from Africa, except perhaps export-platform investment in Mauritius and more recently in Morocco. This type of investment is actively sought by a number of countries establishing export-processing zones or trying to use their privileged access to the large markets of the European Union or South Africa.

76. The types of FDI discussed so far are typical for goods industries. They do not apply to services industries because most services are neither storable nor tradable and therefore have to be produced where they are consumed. Moreover, a number of service industries have traditionally been highly regulated; considered to be of strategic importance, they were typically closed to foreign investors. Furthermore, a number of key service industries were affected by either nationalization or indigenization programmes. In some countries, the presence of services TNCs was kept to the minimum necessary to provide the economy with some of the unique services that could neither be supplied by domestic producers nor imported (e.g., petroleum-related services in Algeria). A few countries realized soon that indigenization policies could be harmful to sophisticated service industries and abandoned them, while many others continued to restrict FDI in services for many years. The result has been not only an underdeveloped services sector, but also diminished competitiveness of export industries relying on services inputs. 52/

B. Domestic investment

77. The contribution of FDI to domestic investment is potentially important, especially in Africa, where the level of domestic savings is low and the general trend of gross domestic investment during the 1980s has been downwards (table 10). Both sub-Saharan Africa and North Africa saw a significant relative increase in gross domestic investment in nearly every country during the period 1965-1975, typically by as much as a third. However, the 1980s saw an equally consistent fall in the share of gross domestic investment in GDP, with only some 14 countries out of 49 recording an increase, but in 5 of these countries, despite an increase, investment remained at a relatively low level (below 15 per cent). 53/

Table 10. Share of gross domestic investment in gross domestic product, 1965-1991

(per cent)

Region	1965	1975	1980	1990	1991
Africa	16	29	27	21	20
North Africa	18	34	31	23	..
Sub-Saharan Africa	14	25	24	17	..

Sources: UNCTAD, Handbook of International Trade and Development Statistics (New York, United Nations, 1993), pp. 447-448; and United Nations, World Economic Survey 1993 (New York, United Nations, 1993), p. 217.

78. For the most part, total FDI flows made only a small contribution to total gross domestic investment (annex table 2). Important exceptions to this were the countries with high shares of FDI flows in GDP listed in table 4; these shares translated into a much higher relative importance of FDI flows to gross domestic investment, reaching 36 per cent in Sierra Leone (1991), 31 per cent in Seychelles (1986-1990) and 23 per cent in Botswana (1986-1989). Among the 29 countries shown in annex table 2, 16 showed an increase in the share of FDI in total investment between 1981-1985 and 1986-1990. In 9 out of these 16 countries, the improvement was at a level below 5 per cent. In the period between 1986-1990 and 1991-1992, 7 out of 15 countries for which data are available registered an increase in the share of FDI flows in their total investment. Keeping in mind that during the 1980s FDI flows increased only modestly and that they stagnated at the beginning of the 1990s, the improvements in the share of total investment financed from FDI most likely are a result of stagnating or perhaps even declining absolute levels of total investment.

C. Other areas of impact

79. In the light of the chronic shortages of foreign exchange in most African countries, the impact of foreign affiliates on the balance of payments is of special interest to those countries. Positive contributions in this respect include inflows of foreign capital to initiate and/or expand projects; export revenues if affiliates are export-oriented or contribute to exports indirectly; and savings of foreign exchange from import substitution. Burdens for a host country's balance of payments include remittances of profits, fees and royalty payments to parent companies; imports of goods and services; and transfers of salaries by expatriate employees. The net foreign exchange effect depends on a number of factors that determine the size of foreign exchange credits and debits associated with each foreign affiliate over its entire life. Indirect effects can be quite important among them; by supplying better and/or cheaper goods and services to local exporting firms, foreign affiliates can increase the competitiveness of a host country's exports. The overall impact of foreign affiliates on the balance of payments of African countries is impossible to ascertain with precision because the data on credits and debits needed for making such an assessment are not disaggregated by foreign versus domestic ownership of firms. Most likely, in the countries where FDI is export-oriented - mainly in countries endowed with natural resources and those with successful export-processing zones (e.g., Mauritius) - foreign affiliates have played a role in sustaining and expanding exports and, overall, contributing positively to the balance of payments. Also, the important role played by trading TNCs in supporting exports of commodities, as discussed earlier in this chapter, should not be forgotten in this context.

80. However, in those countries in which FDI has been concentrated in import-substituting industries, it has tended to have a negative effect on the balance of payments as FDI inflows have frequently been offset by payments for related imports and outflows of dividends and other forms of corporate payments. For example, in Kenya the cumulative outflows of investment and fee income alone totalled 1 billion Kenyan pounds between 1979 and 1986, whilst the total inflow of new investment (including re-invested earnings) was 266.5 million Kenyan pounds. 54/ As the corresponding positive impact on exports was most likely not

significant because of the nature of FDI in Kenya, it can be assumed that the difference between the two figures represents an important part of the total balance-of-payments impact. A similar pattern could be observed in Côte d'Ivoire - another country with similar types of FDI - where the net effect of private capital inflows, when counter-balanced by profit and dividend outflows, only assisted the balance of payments in 8 years out of 20 from 1965 to 1984. 55/

81. Although an assessment of the overall impact of foreign affiliates on the balance of payments is almost impossible, the direct impact of FDI on net transfers of related financial resources can be measured by comparing FDI inflows with outflows of remitted profits. Data for Africa (table 11) show that, during the first half of the 1980s, transfers of profits were higher than FDI inflows in both oil-exporting and non-oil-exporting countries, despite restrictions on transfers that were gradually relaxed in a number of countries during the second half of the 1980s. But despite that liberalization, the situation in the two subsequent periods reversed, and transfers turned positive in both groups of countries. Among oil-exporting countries, the two largest host countries - Egypt and Nigeria - experienced quite significant surpluses of inflows over remittances during the three subperiods, accounting for the lion's share of the group's surplus (annex table 3). Among non-oil-exporting countries, large positive transfers were experienced by Morocco (in the three periods) and smaller ones by Zambia, Seychelles, Mauritius (in 1986-1990), Madagascar, Lesotho and Ghana.

82. Capital is only one of the assets of the FDI package that can be of benefit to host countries. Other assets include transfer of technology, the development of human resources and the upgrading of backward and forward linkages.

83. The question of transfer of technology is difficult to assess. In the case of the many industrial and agri-business concerns that were established through FDI but nationalized in the 1960s and 1970s, the pattern appears to have been one in which technologies have been operated with decreasing skill and precision over time. This is partly because, in many cases, there was either no continuing relationship with the former supplier or only a minimal one. This is different from the experience of countries in East Asia which, as noted above, sought to minimize equity investment from abroad during the 1960s and 1970s and, instead, encouraged technology-sharing agreements. Where TNCs have maintained a strong presence in Africa, as in the oil and motor-assembly industries, a competent cadre of manpower able to operate advanced technology has been created. The experience suggests that, even where foreign-owned assets are transferred to national ownership, it is vital to maintain at least commercial linkages with the TNCs that initially created the assets. Further, the way in which these linkages are sustained also plays a crucial role in the transfer process. As one observer put it: "In reality there is a long and uncertain learning process involved, differing with the nature of the technology, the efficiency of factor and product markets, and the provision of various technological information and services from the infrastructure institutions." 56/

Table 11. Africa: external financial flows related to foreign direct investment, 1981-1992

(Annual averages, millions of dollars)

Country group and period	FDI inflows	Profit remittances	Net transfer
Africa			
1981-1985	1 680	3 157	-1 477
1986-1990	2 852	2 141	711
1991-1992	2 864	1 211	1 653
Oil-exporting countries			
1981-1985	1 397	2 572	-1 175
1986-1990	2 062	1 440	622
1991-1992	1 984	843	1 141
Other countries			
1981-1985	283	585	-302
1986-1990	789	700	89
1991-1992	880	368	512

Source: UNCTAD Programme on Transnational Corporations, based on annex table 3.

84. As regards the development of human resources, a popular proxy measure in the literature has been the share of expatriates versus local personnel in managerial positions in foreign affiliates. According to this measure, some examples suggest that there may still be considerable room for progress in African countries. By 1984, local personnel accounted for only 51 per cent of senior posts in industry in Côte d'Ivoire, and it was in a majority in only 6 out of 16 subsectors. 57/ In Kenya in 1982, 58/ less than 60 per cent of managers and administrators in the entire manufacturing sector were Kenyans. Without additional information it is, however, difficult to make a more general judgement whether these ratios reflect a lack of human development in foreign affiliates or management-skill shortages in the host countries concerned and, in any event, how they have changed over the past decade. 59/

85. Another impact in the area of human resources development concerns working conditions and salaries in foreign affiliates. As illustrated by the example of Kenya (table 12), average wages paid by foreign affiliates in the services sector and in manufacturing exceed those paid by local companies, private or government owned. There are also important intersectoral differences illustrating a different impact of services affiliates and manufacturing affiliates on host countries: average wages paid by foreign service affiliates exceed those paid by foreign manufacturing affiliates by more than 90 per cent. If wages are taken as a proxy measure for skills, FDI in services involves much higher skill operations than FDI in manufacturing. Two factors account for this: the non-tradability of services and their reliance on human rather than physical capital. Both mean that a parent TNC in services (e.g., an insurance firm) establishing an affiliate in an African country has to reproduce, in distinction from manufacturing firms, factor and skill proportions used at home. The impact on a host country depends then on its labour market: if needed skills are abundant (as computer programmers skills in India), the contribution of foreign affiliates will be to increase employment. If skills are scarce, foreign affiliates may have to import them, divert them from local companies by higher pay or train them; under the last of these conditions, soft technology is transferred to the host country. 60/

Table 12. Annual compensation payments in Kenyan enterprises, a/ by type of ownership, 1985

(Thousands of Kenyan shillings per employee)

Type of company	Services	Manufacturing	Mining	Agriculture	Average
Foreign owned	55.4	28.8	-	8.6	27.0
Privately owned	31.6	20.5	5.7	8.5	18.3
Government owned b/	32.6	23.5	10.2	11.4	26.8
Average	35.8	22.2	6.7	8.8	22.4

Source: UNCTC, "Development through partnerships: business relations between state and foreign enterprises in Kenya" (New York, UNCTC, 1987) vol. II, pp. 25-26, mimeograph.

a/ Enterprises with 40 or more workers.

b/ Enterprises with governmental participation, including joint ventures with foreign firms.

V. CONCLUSIONS

86. In 1970, Africa had absorbed more FDI per unit of GDP than Asia or Latin America, a situation that had changed dramatically by 1980 (table 13). As the preceding analysis indicated, the situation deteriorated further during the 1980s and early 1990s. The widespread liberalization of FDI policies by Governments in Africa during the 1980s, often as part of structural adjustment programmes, represented a reversal of previous policies and was undertaken with a view towards attracting more FDI. The analysis shows that - despite the less encouraging picture for Africa as a whole - a number of countries has, indeed, succeeded in attracting relatively sizeable flows, either consistently over the years or in particular years.

87. To improve this performance substantially and broaden it to a wider range of countries, requires, of course, considerable improvements in the basic factors determining FDI flows. 61/ Most of these are not under the immediate control of Governments and, in any event, require longer time to materialize. An obvious immediate mechanism - limited as it may be - consists of the further improvement in policies, regulations and administrative practices regarding FDI, learning, as much as possible, from best practices in this area in other countries. Trends outlined at the beginning of this report indicate that many countries have, in fact, made substantial efforts. Further possibilities were discussed in some detail in an earlier report to the Commission on Transnational Corporations, entitled "Foreign direct investment in Africa and strategies to encourage transnational corporations to respond positively to the improved investment climate" (E/C.10/1990/8), submitted to the Commission at its sixteenth session in 1990. Nevertheless, it is perhaps worthwhile to emphasize a few policy actions that may deserve special attention:

(a) Although several countries in Africa have an investment climate, including political, economic and social conditions, that is good, a number of potential investors lump them together with other countries and see them as part of a continent that is, in its entirety, considered to be not attractive for TNCs, especially if compared with competing locations in the world-wide FDI market. As one recent study put it, "for most multinational corporations, Africa is the forgotten continent". 62/ Yet, the same study gives a number of examples of long-standing, successful operations of manufacturing TNCs in Africa, involving multicountry plants and marketing operations. Efforts need therefore to be made to change the image of Africa and encourage more differentiated views. This involves various promotional and pro-active measures, such as targeting individual companies that could fulfil a niche role in a particular economy or in specific industries. In a sense, this is a logical next step in the process of attracting FDI after many countries have improved their investment codes. The potential of such an approach is demonstrated by the success of, for instance, particular states within the United States, to target systematically investors from Japan during the past 10 years.

(b) Among the first to be targeted by Governments seeking an increase in FDI should be the TNCs already established in Africa. At the moment, they are frequently those that have benefited least from the new investment regimes.

Table 13. The relative importance of foreign-direct-investment inflows to GDP: Africa, a/ Asia b/ and Latin America and the Caribbean, 1970, 1975, 1980 and 1991

(dollars per $1,000 of GDP)

Year	Africa a/	Asia b/	Latin America and the Caribbean
1970	5.2	2.6	7.4
1975	3.2	3.9	10.7
1980	1.0	3.7	8.3
1991	7.4	12.6	13.2

Source: UNCTAD Programme on Transnational Corporations, based on foreign-direct-investment database; and United Nations, National Accounts Statistics: Analysis of Main Aggregates (New York, United Nations, various years).

a/ Excluding South Africa.

b/ East and South-East Asia only (excluding Japan).

They are, however, the natural candidates to play a key role as a source of FDI for the continent, including through re-invested profits, and to provide a positive demonstration effect for potential new investors. 63/ In this respect, consideration should also be given to the provision of various after-investment services to established TNCs (analogous to the marketing concept of "after-sales service"), 64/ many of which are aimed at reducing the "hassle costs of doing business". 65/

(c) Problems that have arisen in the application of new investment codes have sometimes offset the potential value of the revised regimes. A key feature of the new regimes in several countries has been the introduction of one-stop shops where all bureaucratic and fiscal aspects of a project are meant to be resolved. In a number of cases, this central point has become simply an additional stop on a route that still involves a range of government departments, several of which may have different perceptions of a given project. Further, many investors develop an impression that the arrangements for their investments are likely to be less than transparent and that some form of extra effort is required if projects are to be finalized. Where such efforts can be construed as illicit payments, this can lead to other complications. In the United States, for example, illicit payments are illegal under the Foreign

Corrupt Practices Act, passed in 1978, and companies can be fined up to $2 million for transgressing the Act. Impressions of this sort have partly been responsible for the development of a negative attitude by United States investors to some countries in Africa.

(d) An additional and separate constraint relates to the need of many TNCs to match their funds with local finance. The restricted nature of capital markets in most African countries makes it difficult to raise long-term finance locally, and even more so to raise equity finance. Although a number of venture-capital funds have been set up in Africa in the past five years, they are geared primarily to the needs of locally owned small-to-medium sized businesses. There is scope for the introduction of local investment trusts, shares in which could be taken by existing local financial intermediaries such as insurance companies, pension funds and even local grass-roots savings groups that frequently find it difficult to re-invest their deposits. 66/ Such trusts could act as co-investors with TNCs in new projects or the expansion of existing ones. Their character would be different from that of development finance companies owned by Governments, many of which were established in the 1960s and which have not been too successful in mobilizing local corporate or individual savings.

88. As to the future prospects of FDI in Africa, the role of South Africa as a source of FDI for the region has been much discussed in the past three years. Trade between South Africa and the remainder of Africa had grown to a total of $1.7 billion by 1990. 67/ In many cases, the trade link could be complemented by an investment link, and a variety of efforts in this direction are being pursued or are under discussion. There have also been several acquisitions by South African banks of banking networks elsewhere in southern and eastern Africa. Given the country's level of development and long isolation, the potential for outward FDI from the post-apartheid South Africa is considerable. On the other hand, however, the reconstruction of the economy after a period of sanctions and social upheaval will absorb considerable amounts of domestic capital (see also E/C.10/1994/11).

89. The industries that can be expected to benefit from new FDI inflows in the next decade are likely to be similar to those that have proved attractive in the 1980s. These are principally in the minerals sector (including gold) and oil since production costs in Africa remain competitive. Some investment in niche tourism - such as tourism based on ecologically attractive locations - can also be expected, but will perhaps be insufficient to offset disinvestment in tourism in countries in which political problems have created a negative investment climate. A more hopeful situation exists in some agricultural sub-sectors, such as horticulture, where export markets account for nearly all of output, and where investors can retain a high proportion of export revenues.

90. A key consideration for TNCs as they reassess Africa as a FDI location is the extent to which profits can be earned that are comparable to those in the rest of the world, and the extent to which they can be earned with no greater degree of hazard or difficulty than elsewhere. As noted in section III, the costs of production in Africa had become less competitive by the 1980s in many respects. The widespread currency devaluations that have occurred in Africa since the mid-1980s as part of structural adjustment programmes have

considerably reduced the cost of labour and other locally sourced inputs, to make them again more competitive with those in low-income Asia. Although productivity levels in Africa remain below those in south Asia for the manufacturing sector, the improvement in relative costs is likely to increase Africa's attraction as a location for foreign direct investment.

Notes

1/ However, the significance of Nigeria's liberalization was considerably offset by the fact that it did not apply to companies registered under the old decrees which continued to have their share in equity restricted to 40 per cent.

2/ In case of large projects in the natural resources sector, foreign currency retention is now a common feature of most contracts recently negotiated in the region.

3/ The problem has been that in some cases (including Nigeria and Zambia) the operation of the free market in foreign exchange has often been suspended; in addition, delays in the mechanics of remittance have recurred, thereby reducing investor confidence in the durability of the scheme.

4/ See, e.g., the Investment Code 1984 of Côte d'Ivoire, the Foreign Investment Protection Act of Kenya, the Association Law of 1988 of Liberia, the Code of Investment of 1981 of Senegal and the Investment Code of 1991 of Uganda.

5/ The relevant legislation regarding the zones includes the Export Processing Zones Act No. 51 of 1970, the Development Incentives Act No. 50 of 1974 and the Expert Service Zones Act No. 8 of 1981.

6/ See UNCTC, The Determinants of Foreign Direct Investment: A Survey of Evidence (New York, United Nations, 1992), Sales No. E.92.II.A.2.

7/ See Investment Code, 1992, Investment Code, 1987, The Companies Act, 1986, Investment Act, 1991, respectively, for those countries.

8/ S. M. Shafaeddin, "Risks of further marginalization of Africa in international trade". Paper presented to the Development Studies Association Conference, Sussex, Sussex University, 28 September 1993, mimeo.

9/ See UNCTAD Programme on Transnational Corporations, "Foreign direct investment to the least developed countries and other developing countries outside Africa: report by the UNCTAD secretariat", E/C.10/1994/6.

10/ World Bank, World Debt Tables 1993-1994 (Washington, D.C., World Bank, 1993), vol. 1, pp. 174-177.

11/ Economic Commission for Africa (ECA), "Revitalization of investment for Africa's development: prospects in the 1990s and beyond". Paper prepared for an Ad Hoc Expert Group Meeting, Addis Ababa, 29 November-1 December 1993, mimeo, p. 22.

12/ UNCTAD, "Case study submitted by Nigeria" (TD/B/WG.1/Misc.3/Add.9), Ad Hoc Working Group on Investment and Financial Flows, Geneva, 10 January 1994, vol. I, mimeo, p. 39.

13/ United Nations, World Economic Survey (New York, 1993), pp. 41-45.

14/ Central Bank of Nigeria, Annual Report and Statement of Accounts 1977-1986.

15/ L. Cockcroft and R. C. Riddell, "Foreign direct investment in sub-Saharan Africa" (Washington, D.C. World Bank, 1991), Working Paper No. 619, pp. 35-37.

16/ J. A. Quelch and J. E. Austin, "Should multinationals invest in Africa", Sloan Management Review, No. 3 (1993), pp. 111-112.

17/ Ibid.

18/ Ibid., p. 112.

19/ Ibid.

20/ J. H. Dunning and J. A. Cantrell, IRM Directory of Statistics of International Investment and Production (McMillan, London and New York, 1987).

21/ UNCTC, "Foreign direct investment in Africa and strategies to encourage transnational corporations to respond positively to the improved investment climate", E/C.10/1990/9, p. 7.

22/ Economic Commission for Africa, End of Year Statement (Addis Ababa, ECA, 1993); and United Nations, World Economic Survey (New York, United Nations, 1993), pp. 41-45.

23/ ECA, The Economic Report on Africa 1993.

24/ World Bank, Sub-Saharan Africa: From Crisis to Sustainable Growth (Washington, D.C., The World Bank, 1989), table 1.1, p. 27.

25/ "Morocco courts foreign investors", International Herald Tribune, 12 November 1993.

26/ UNCTAD Programme on Transnational Corporations, World Investment Report 1993: Transnational Corporations and Integrated International Production (United Nations publication, Sales No. E/93.II.A.14), pp. 66-67.

27/ See UNCTC, Foreign Direct Investment and Industrial Restructuring in Mexico, UNCTC Current Studies, Series A, No. 18 (United Nations publication, Sales No. E.92.II.A.9).

28/ UNCTAD Programme on Transnational Corporations, World Investment Report 1993, op. cit.

30/ "A survey of third world finance", The Economist, 25 September 1993, p. 15; see also "Africa is being left out", International Herald Tribune, 4 January 1994, p. 4.

31/ F. Sader, "Privatization and foreign investment in the developing world, 1988-92" (World Bank, Washington, D.C., 1993), Working Paper 1202, p. 22.

32/ World Bank, World Debt Tables 1993-1994 (Washington, D.C., World Bank, 1993), p. 114; see also UNCTAD Programme on Transnational Corporations, "Foreign direct investment to the least developed countries and other developing countries outside Africa: report by the UNCTAD secretariat", E/C.10/1994/6.

33/ Sader, op. cit.; also UNCTAD Programme on Transnational Corporations, "Foreign direct investment to the least developed countries", op. cit..

34/ The World Bank, World Debt Tables 1993-94, op c.t., p. 114.

35/ Sader, op. cit., p. 9.

36/ "Morocco courts foreign investors", International Herald Tribune, 12 November 1993.

37/ Africa Analysis, No. 185 (12 November 1993), p. 13.

38/ Africa Analysis, No. 180 (3 September 1993), p. 13; and "A growing trend towards Africa", The Financial Times, 17 January 1994.

39/ Sader, op. cit, p. 1.

40/ B. Onimode et al., Multinational Corporations in Nigeria (Ibadan, 1983).

41/ S. T. Langdon, The Multinational Corporations in the Political Economy of Kenya (1981).

42/ Cockcroft and Riddell, op. cit., p. 18.

43/ Government of Kenya, Economic Survey (1987), p. 41.

44/ UNCTC, World Investment Directory 1992, vol. I: Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11), p. 17.

45/ UNCTAD Programme on Transnational Corporations, World Investment Directory, vol. V: Africa and West Asia (United Nations publication, forthcoming).

46/ World Bank, World Debt Tables, op. cit., p. 58.

47/ A. Allaoua and M. Atkin, "Foreign direct investment in Africa: trends, constraints and challenges" (Addis Ababa, Economic Commission for Africa, 1993), pp. 3 and 12-13.

48/ UNCTAD Programme on Transnational Corporations, World Investment Report 1991, op. cit., pp. 66-67.

49/ Economic Commission for Africa, "Revitalization of investment for Africa's development ...", op. cit., pp. 23-24.

50/ UNCTC, Foreign Direct Investment and Transnational Corporations in Services (United Nations publication, Sales No. E.89.II.A.1), p. 120.

51/ A full judgement about the impact of import-substituting FDI on the balance of payments would only be possible if a counter-factual situation could be constructed.

52/ See R. E. Lipsey and Z. Zimny, "The impact of transnational service corporations on developing countries: competition, market structure and provision of unique services", in K. P. Sauvant and P. Mallampally, eds., The United Nations Library on Transnational Corporations: Transnational Corporations in Services, vol. 12 (London, Routledge, 1993), pp. 316-332.

53/ UNCTAD, Handbook of International Trade and Development Statistics (New York, United Nations, 1993), pp. 452-462.

54/ Reports of the Central Statistical Bureau, Nairobi, 1979-1989.

55/ World Bank, "Côte d'Ivoire in Transition" (Washington, D.C., World Bank, 1987), mimeo.

56/ Sanjaya Lall, "Understanding technology development", Development and Change, 24 (October 1993).

57/ Minister d'Industrie, Schema Directeur de Developpement Industriel de la Côte d'Ivoire (Abidjan, 1988).

58/ C. H. Kim, "The concept and social position of the managerial elite in contemporary Kenya with special reference to Africanisation". Working Paper No. 431, Institute of Development Studies, University of Nairobi, 1985.

59/ Skill shortages are indeed cited as an important impediment to FDI; see Cockcroft and Riddell, op. cit., pp. 55-56.

60/ UNCTC, "Transnational services corporations and developing countries: areas of impact", in Sauvant and Mallampally, op. cit., pp. 275-291.

61/ UNCTC, The Determinants of Foreign Direct Investment, op. cit.

62/ Quelch and Austin, op. cit., p. 107.

63/ I. Husain, Trade, Aid and Investment in Sub-Saharan Africa, Working Paper No. 1214 (Washington, D.C., World Bank, 1993), p. 38.

64/ See Alvin G. Wint, "Promoting transnational investment: organizing to service approved investors", Transnational Corporations, 2 (February 1993), p. 71-90.

65/ J. H. Dunning, "The global economies, domestic governance, strategies and transnational corporations: interactions and policy implications", Transnational Corporations, 1 (December 1993), p. 27.

66/ Although one private bank in Cameroon has developed such an instrument, it remains a rare example.

67/ Figures released by the Government of South Africa in 1991; they are likely to be an understatement.

Annex table 1. Inflows of foreign direct investment, by host country, various measures, 1981-1985, 1986-1990 and 1991-1992

(Annual averages, millions of dollars and per cent)

Country	Inflows, millions of dollars			Share in FDI inflows to GDP, per cent		
	1981-1985	1986-1990	1991-1992	1981-1985	1986-1990	1991-1992
Algeria	-7.8	6.9	11.8	-0.02	0.01	0.03
Angola	122.9	69.8	476.3	..	1.3	7.9 a/
Benin	0.4	0.5	10.1	0.03	0.03	0.5
Botswana	49.8	60.8	53.0	4.4	3.5	1.4
Burkina Faso	1.3	1.2	0.5 a/	0.1	0.1	0.02 a/
Burundi	3.4	1.2	0.6	0.3	0.1	0.05
Cameroon	159.0	7.2	-5.1	2.0	0.05	-0.04
Cape Verde	-	0.8	0.2	-	0.4	0.1
Central African Republic	5.5	3.7	-3.9	0.8	0.4	-0.3
Chad	0.1	-0.1	-1.7 a/	0.01	-	-0.1 a/
Comoros	-	3.0	1.8	..	1.5	0.7
Congo	33.9	16.9	5.5 a/	1.6	0.8	0.2 a/
Côte d'Ivoire	33.7	59.7	47.6	0.5	0.6	0.5
Djibouti	0.1	0.3	-0.1 a/	..	0.1	-0.02 a/
Egypt	688.7	1 067.8	356.0	2.4	3.1	0.8 a/
Equatorial Guinea	1.1	3.5	31.2	..	2.9	22.5
Ethiopia	1.0	2.0	3.4	0.02	0.03	0.05
Gabon	64.3	75.1	-68.9	1.8	2.0	-1.2
Gambia	-0.02	3.5	8.2	-0.1	1.2	2.4

Country	Inflows, millions of dollars			Share in FDI inflows to GDP, per cent		
	1981-1985	1986-1990	1991-1992	1981-1985	1986-1990	1991-1992
Ghana	8.5	8.8	21.2	0.2	0.2	0.3 a/
Guinea	0.2	4.2	0.5 a/	..	0.2	0.02
Guinea-Bissau	0.7	0.8	0.3 a/	0.5	0.5	0.1 a/
Kenya	15.9	39.0	12.6	0.2	0.5	0.2
Lesotho	3.9	11.9	5.1	1.2	2.5	0.8
Liberia	20.8	248.9	8.2 a/	1.9	..	..
Libya	-272.1	21.3	155.0	-0.9	..	..
Madagascar	2.3	11.1	17.4	0.1	0.4	0.6
Malawi	7.6	9.9	3.1 a/	0.6	0.8	0.1 a/
Mali	4.3	3.8	-2.1	0.4	0.1	-0.1
Mauritania	8.9	2.3	1.0	1.2	0.2	0.1
Mauritius	3.4	24.9	16.8	0.3	1.2	0.7 a/
Morocco	50.3	95.4	371.7	0.3	0.4	1.3
Mozambique	0.4	4.9	24.0	0.02	0.3	2.1
Namibia	-	7.4	80.6	-	0.3	3.5
Niger	3.1	11.4	0.9 a/	0.13	0.5	0.04 a/
Nigeria	400.2	723.3	804.5	0.5	2.3	2.5
Rwanda	15.9	15.9	3.4	1.07	0.7	0.2
Senegal	8.2	3.0	33.5 a/	0.3	0.05	0.4 a/
Seychelles	10.1	21.4	21.5	6.6	7.5	5.6
Sierra Leone	-2.2	-13.8	33.5	-0.1	0.3	4.7
Somalia	-4.9	-2.3	1.4	-1.0	-0.1	..
Sudan	5.8	2.7	-0.5 a/	0.1	0.02	-0.01 a/

.../...

Country	Inflows, millions of dollars			Share in FDI inflows to GDP, per cent		
	1981-1985	1986-1990	1991-1992	1981-1985	1986-1990	1991-1992
Swaziland	6.7	48.1	45.3	1.4	7.5	4.7
Togo	6.9	3.8	6.7 a/	0.8	0.3	0.4 a/
Tunisia	207.7	73.9	252.2	2.5	0.7	1.7
Uganda	-0.4	0.6	2.0 a/	-0.01	0.03	0.1 a/
United Republic of Tanzania	8.7	-0.2	0.9 a/	0.1	0.01	0.03
Zaire	-17.7	-14.3	14.5 a/	-0.13	-0.2	..
Zambia	19.1	112.5	42.1	0.7	3.4	0.9 a/
Zimbabwe	0.2	-12.7	3.4	0.01	-0.2	0.1

Source: UNCTAD Programme on Transnational Corporations, based on IMF tapes, retrieved in December 1993; and UNCTAD, Programme on Transnational Corporations, FDI database.

a/ 1991 only.

Annex table 2. Share of foreign direct investment in gross domestic investment, by country, 1981-1985, 1986-1990 and 1991-1992

(Per cent)

Country	1981-1985	1986-1990	1991-1992
Algeria	-0.05	0.04 a/	...
Benin	0.13	0.22	4.76 b/
Botswana	13.35	23.17 c/	...
Burkina Faso	0.43	...	...
Burundi	2.04	2.68	0.28
Cameroon	7.77	0.21	...
Congo	4.12	5.13 c/	...
Côte d'Ivoire	2.67	4.5 d/	...
Egypt	7.90	10.34	4.87
Ethiopia	0.13	0.27	0.53
Gabon	...	6.08	...
Ghana	4.76	1.35	...
Kenya	1.09	2.03	1.3 b/
Liberia	9.47	6.65	...
Malawi	4.46	4.35	0.71 b/
Mali	2.36	0.84	0.83 b/
Mauritius	1.46	4.11	2.52 b/
Morocco	1.34	1.77	5.05 b/
Mozambique	0.04	1.15	3.97 b/
Niger	0.45	5.06	...
Nigeria	3.49	25.61	18.59
Rwanda	6.99	4.94	1.97
Senegal	2.45	0.46 c/	...
Seychelles	26.06	31.33	...
Sierra Leone	-2.51	-0.01	36.15 b/
Sudan	...	0.13	-0.05 b/
Swaziland	4.53	...	...

Country	1981-1985	1986-1990	1991-1992
Togo	2.22	2.22	...
Tunisia	8.21	3.29	6.43
United Republic of Tanzania	0.69	-0.02	0.08
Zaire	-2.07	-1.47	...
Zambia	5.27	19.45	...
Zimbabwe	0.01	-1.09	...

Source: UNCTAD Programme on Transnational Corporations, based on the Programme's FDI database.

a/ 1986-1988.

b/ 1991.

c/ 1986-1990.

d/ 1986-1987.

Annex table 3. External financial flows related to foreign direct investment, by country, 1981-1985, 1986-1990, 1991-1992

(Annual averages, millions of dollars)

Country	1981-1985	1986-1990	1991-1992
Africa			
A. FDI inflows	1 679.8	2 851.8	2 863.9
B. Profit remittances	3 157.2	2 140.5	1 210.9
C. Net transfer	-1 477.4	711.3	1 653.0
Oil exporting countries			
A. FDI inflows	1 396.7	2 062.4	1 984.1
B. Profit remittances	2 572.3	1 440.3	842.5
C. Net transfer	-1 175.6	622.1	1 141.6
Algeria			
A. FDI inflows	-7.8	6.9	11.8
B. Profit remittances	506.6	284.6	..
C. Net transfer	-514.4	-277.7	...
Cameroon			
A. FDI inflows	158.8	7.2	-5.6
B. Profit remittances	84.9	81.3	...
C. Net transfer	73.9	-74.1	...
Congo			
A. FDI inflows	34.0	17.0	5.5
B. Profit remittances	24.5	46.0	...
C. Net transfer	9.5	-29.0	...
Egypt			
A. FDI inflows	688.7	1 067.9	356.0
B. Profit remittances	10.4	21.8	7.0
C. Net transfer	678.3	1 046.1	346.0
Gabon			
A. FDI inflows	64.3	75.1	-68.9
B. Profit remittances	101.1	24.3	95.7
C. Net transfer	-36.8	50.8	-164.6

Country	1981-1985	1986-1990	1991-1992
Libya			
A. FDI inflows	-272.0	21.3	155.0
B. Profit remittances	1 135.6	403.0	...
C. Net transfer	-1 407.6	-381.7	...
Nigeria			
A. FDI inflows	400.2	723.3	804.5
B. Profit remittances	542.4	308.0	186.0
C. Net transfer	-142.2	415.3	618.5
Tunisia			
A. FDI inflows	207.7	73.9	252.9
B. Profit remittances	145.2	118.4	267.0
C. Net transfer	62.5	44.5	-14.1
Other Africa			
A. FDI inflows	283.0	789.4	879.8
B. Profit remittances	584.9	700.2	368.4
C. Net transfer	-301.9	89.2	511.4
Benin			
A. FDI inflows	0.4	0.5	10.1
B. Profit remittances	1.6	...	...
C. Net transfer	-1.2	...	...
Botswana			
A. FDI inflows	49.8	60.9	53.0
B. Profit remittances	137.2	248.2	...
C. Net transfer	-87.4	-187.3	...
Burkina Faso			
A. FDI inflows	1.3	1.2	0.5
B. Profit remittances	3.5	...	...
C. Net transfer	-2.2	...	...
Burundi			
A. FDI inflows	3.4	1.2	0.6
B. Profit remittances	...	3.4	2.1
C. Net transfer	...	-2.2	-1.5

Country	1981-1985	1986-1990	1991-1992
Cape Verde			
A. FDI inflows	0.0	0.8	0.2
B. Profit remittances	55.6	35.8	...
C. Net transfer	...	-35.0	...
Ghana			
A. FDI inflows	8.5	8.8	21.3
B. Profit remittances	1.7	5.8	...
C. Net transfer	6.8	3.0	...
Gambia			
A. FDI inflows	0.0	3.5	8.2
B. Profit remittances	3.1	...	...
C. Net transfer	3.1	...	...
Kenya			
A. FDI inflows	15.9	39.0	12.6
B. Profit remittances	71.5	71.4	...
C. Net transfer	-55.6	-32.4	...
Lesotho			
A. FDI inflows	39.0	11.9	5.1
B. Profit remittances	5.2	9.8	150.5
C. Net transfer	33.8	2.1	-145.4
Liberia			
A. FDI inflows	20.0	248.9	8.2
B. Profit remittances	0.5	...	...
C. Net transfer	19.5	...	...
Madagascar			
A. FDI inflows	2.3	11.1	17.4
B. Profit remittances	2.8	1.0	2.0
C. Net transfer	0.5	10.1	15.4
Malawi			
A. FDI inflows	7.6	9.9	3.1
B. Profit remittances	10.5	6.1	...
C. Net transfer	2.9	3.8	...

Country	1981-1985	1986-1990	1991-1992
Mauritania			
A. FDI inflows	8.9	2.3	1
B. Profit remittances	27.0	32.3	...
C. Net transfer	-18.1	-30.0	...
Mauritius			
A. FDI inflows	3.4	24.9	16.9
B. Profit remittances	1.5	13.6	20.6
C. Net transfer	1.9	11.3	-3.7
Morocco			
A. FDI inflows	50.3	95.4	371.8
B. Profit remittances	50.3	41.4	55.0
C. Net transfer	30.1	54.0	316.0
Niger			
A. FDI inflows	3.1	11.4	0.9
B. Profit remittances	-8.8	...	...
C. Net transfer	11.9	...	...
Rwanda			
A. FDI inflows	15.9	15.9	3.4
B. Profit remittances	1.7	1.7	1.8
C. Net transfer	14.2	14.2	1.6
Senegal			
A. FDI inflows	8.2	3.0	33.5
B. Profit remittances	21.0	23.1	35.4
C. Net transfer	12.3	-20.1	-1.9
Seychelles			
A. FDI inflows	10.1	21.4	21.5
B. Profit remittances	2.8	5.0	4.9
C. Net transfer	7.3	16.4	16.6
Sierra Leone			
A. FDI inflows	-2.2	-13.8	33.5
B. Profit remittances	10.3	7.3	...
C. Net transfer	-12.5	-21.1	...

Country	1981-1985	1986-1990	1991-1992
Swaziland			
A. FDI inflows	6.7	48.1	45.3
B. Profit remittances	10.2	49.4	66.0
C. Net transfer	-3.5	-1.3	-20.7
Togo			
A. FDI inflows	6.9	3.8	6.7
B. Profit remittances	10.4	13.6	20.9
C. Net transfer	-3.5	-9.8	-14.2
Zaire			
A. FDI inflows	-17.7	-14.3	14.5
B. Profit remittances	108.2	59.2	...
C. Net transfer	-125.5	-73.5	...
Zambia			
A. FDI inflows	19.1	112.5	42.2
B. Profit remittances	18.2	18.0	...
C. Net transfer	-0.9	94.5	...
Zimbabwe			
A. FDI inflows	0.2	-12.7	3.4
B. Profit remittances	69.3	60.4	...
C. Net transfer	-69.1	-73.1	...

Source: UNCTAD Programme on Transnational Corporations, based on the Programme's FDI database.